

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Marysville	County St. Clair
Fiscal Year End June 30, 2006	Opinion Date September 15, 2006	Date Audit Report Submitted to State November 30, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

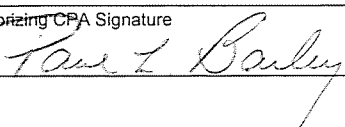
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☒ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Single Audit	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple		Telephone Number 810-984-3829	
Street Address 1979 Holland Ave.		City Port Huron	State MI
		Zip 48060	
Authorizing CPA Signature 		Printed Name Paul L. Bailey	License Number 1101014088

CITY OF MARYSVILLE, MICHIGAN

ANNUAL FINANCIAL STATEMENTS
with Supplementary Information

FOR THE YEAR ENDED
JUNE 30, 2006

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CITY OF MARYSVILLE, MICHIGAN

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CITY OF MARYSVILLE, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the remaining fund information of the City of Marysville, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Marysville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As explained in Note 1, the financial statements referred to above do not include the Marysville Housing Commission, a component unit of the City of Marysville, which should be included to conform with accounting principles generally accepted in the United States of America. The amount of assets, liabilities, net assets, revenues and expenditures that should be included is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marysville, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2006, on our consideration of the City of Marysville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12, and schedule of funding progress, schedule of employer contributions and budgetary comparisons on pages 48 through 51 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marysville's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

September 15, 2006



CITY OF MARYSVILLE

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MANAGEMENT DISCUSSION AND ANALYSIS

This section of the City of Marysville's annual financial report presents the City's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the City's financial statements, which follow this section. Comparative data to the prior year is included in this report when available and appropriate.

FINANCIAL HIGHLIGHTS

- Total cost of all of the City's governmental programs (all funds except for water, sewer, golf and pension related funds) was \$10,968,226 with no new programs added this year.
- In the City's business-type activities (sewer, water and golf), operating revenues were \$4,538,357, and operating expenses of \$3,769,955, resulting in a net operating income of \$768,402. With non-operating revenues and expenses and net transfers the business-type activities had a net income of \$441,831.
- The City of Marysville's total debt increased by \$94,834 during the current fiscal year. Principal payments of \$505,000 were made for the Sewer Separation Bonds and the Building Authority Bonds. The City received final Bond Proceeds from the Wet Weather Sewer Project of \$293,592. In addition the City has recorded a liability on an anticipated tax tribunal of \$300,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – Management Discussion and Analysis (this section), the Basic Financial statements, required supplementary information (RSI), and an optional section that presents combining statements for non-major governmental funds and fiduciary funds. The basic financial statements include two kinds of statements that present different views of the City: Government-wide Financial Statements and Fund Financial Statements. The table below summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the City of Marysville Financial Statements

<i>Statement Type</i>	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private business: Water, Sewer, and Golf Fund	Where City is trustee for someone else's resources, ex. City General Retirement System
<i>Required financial statements</i>	<ul style="list-style-type: none"> - Statement of net assets - Statement of activities 	<ul style="list-style-type: none"> - Balance sheet - Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> - Statement of net assets - Statement of revenues, expenses and changes in fund net assets - Statement of cash flows 	<ul style="list-style-type: none"> - Statement of fiduciary net assets - Statement of changes in fiduciary net assets
<i>Accounting basis & measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short- and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short- and long-term	All assets & liabilities, both short and long-term; the City's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the year end; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenue and expenses during year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies and provide long- and short-term information. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets defined, as the difference between assets and liabilities, is one way to measure the City's financial health or position.

The government-wide financial statements of the City are divided into three categories:

- Governmental activities (all activities except sewer, water, golf and pension related funds) – most of the City’s basic services are included here, such as public safety, public works, parks and general administration. Property taxes and state and federal grants finance most of these activities.
- Business-type activities – activities where the City charges fees to customers to help it cover the cost of services it provides; included here is the sewer, water and golf funds.
- Component units – the City has two component units; the Housing Commission and the new Local Development Finance Authority (LDFA) - although legally separate, the Housing Commission is important because the City is financially accountable for them. The independent audit for the Housing Commission has not been completed at the time of the completion of this audit; therefore it will not be included. A copy of the Housing Audit, once completed can be obtained by requesting it directly from the Housing Commission. The LDFA was formed to allow the City to capture money up to the amount spent to purchase the property for the Schefenacker Visions addition last fiscal year.

Fund Financial Statements

The fund financial statements provide more detailed information about the City’s most significant funds-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- Governmental funds-Most of the City’s basic services are reported in governmental funds (all funds except water, sewer, golf and pension related funds), which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. We describe the relationship (or differences) between governmental activities (in Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation schedules on pages 17 and 19.
- Proprietary funds-Services for which the City charges customers a fee (water, sewer, motor pool and golf) are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The City’s *enterprise* funds (a type of proprietary fund) are the same as the business-type activities, but provide more detail and information. The *internal service* fund (another proprietary fund type) reports activities that provide supplies and services for the City’s other programs. The internal service fund reported here is the Motor Pool Fund.
- Fiduciary funds-The City is the trustee, or fiduciary, for its employees’ pension and other employee benefit trust funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City’s fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. They are excluded from the government-wide financial statements because these assets cannot be used to finance the City’s operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets continue to decrease, with this year dropping to \$39.4 million from \$40.2 million in 2005 at an approximately 2% change. This trend may continue merely as a result of the large annual depreciation of the mass of assets in relation to the small additions per year by comparison. Our analysis focuses on the net assets (Table 1) of the City's governmental and business type activities. Comparison data from the prior year is also shown.

Table 1
Net Assets of Governmental and Business-type Activities
(in thousands)

	Governmental Activities		Business- type Activities		Total Government	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets	9,179	8,936	\$2,613	2,868	\$11,792	11,804
Capital Assets	20,587	19,784	17,669	17,671	38,256	37,455
<i>Total Assets</i>	<i>\$29,766</i>	<i>\$28,720</i>	<i>\$20,282</i>	<i>\$20,539</i>	<i>\$50,048</i>	<i>\$49,259</i>
Long-term debt outstanding	2,686	2,893	6,169	6,057	8,855	8,950
Other liabilities	462	523	446	373	908	896
<i>Total Liabilities</i>	<i>\$3,148</i>	<i>\$3,416</i>	<i>\$6,615</i>	<i>\$6,4230</i>	<i>\$9,763</i>	<i>\$9,846</i>
Net Assets:						
Invested in capital assets, net of debt	17,900	17,191	11,235	11,363	29,135	28,554
Restricted	3,129	3,136	0	0	3,129	3,136
Unrestricted	5,589	4,977	2,432	2,746	8,021	7,723
<i>Total Net Assets</i>	<i>\$26,618</i>	<i>\$25,304</i>	<i>\$13,667</i>	<i>\$14,109</i>	<i>\$40,285</i>	<i>\$39,413</i>

The decrease in net assets for the governmental activities is \$1,314,059, while the net assets for business type activities actually increased by \$441,831. As stated above, the decrease in net assets for the governmental activities was mainly due to the large amount of depreciation for the year in relation to the amount of assets added. For the business type activities the change is considered reasonable and part of the normal process of doing business.

Governmental Activities

Governmental activities for the City include four major activities: General Government, Public Safety, Public Works, and Recreation/Culture. General Government includes Administration, Assessor, Treasurer, Clerk, Finance and Community Development departments. Public Safety includes Police, Fire, Emergency Management and Building Inspector departments. Public Works includes primarily the Department of Public Works and building and maintenance of the major and local roads. The library, city parks, historical and recreation activities comprise the Recreation and Culture activity.

The largest revenue for governmental activities is the general operating property tax. The City was allowed by State law to increase its property tax by the raw rate of inflation for those properties that were not sold and had no construction improvements. The overall taxable value of property in the City increased slightly and resulted in an increase of taxes of approximately \$111,836 over the prior year.

State shared revenue decreased for the fourth year in a row. This year's decrease of 1.1% or \$12,097 was an improvement over last year's decrease of 2.1 % or \$22,916. The Revenue Sharing dollars are a result of the State of Michigan collecting sales tax and redistributing a portion of it to the local jurisdictions. It represents the second largest source of revenue for the City, but unfortunately is volatile since it fluctuates with the economy.

To assist in maintenance and repair of the road system, the City receives Michigan Transportation Fund money. In Fiscal Year 06, they received \$607,867 from the Transportation Fund that is included in the "program revenues" section of the State of Activities for Public Works (operating grants and contributions). This 1.2% decrease from 2005 was expected due to the reduction of State distribution notification that was received in 2005. Due to the volatility of the ACT 51 monies the City continually applies for Federal and/or State grants to assist with the maintenance and repair of the roads.

The Program Revenues for Public Safety includes two major sources: the collections for the ambulance services (EMS) in the Fire department and the permits and licenses for general construction in the city.

Table 2 below presents the change in the Net Assets for all of the Governmental Activities. It covers the current ending fiscal year and two years prior for comparison purposes. It clearly shows the fluctuation of the net assets over that time period. The Revenue totals for those three years illustrate the trend of decreasing revenues, not increasing. Even though the revenue for 6-30-06 is higher than the previous year, it is still lower than two years prior. However in comparing the expenses for that same time frame, even though it fluctuated, it does not show a downward trend.

Change in Net Assets for the Governmental Activities

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Program revenues:			
Charges for services	542,529	611,162	553,614
Operating Grants & Contributions	1,432,405	1,253,119	1,319,186
Capital Grants and Contributions	537,920	29,655	233,549
General Revenues:			
Property Taxes	6,017,505	6,300,733	6,359,483
Franchise Fees	1,193,372	105,677	106,661
Grants & contribution (not restricted)	168,284	1,067,286	1,055,189
Unrestricted investment income	0	524,671	230,455
Transfer	147,000	(887,003)	96,030
Special Items	(365,355)		(300,000)
Total Revenues	<u>9,673,660</u>	<u>9,005,300</u>	<u>9,654,167</u>
Expenses:			
General Government	878,073	893,602	894,404
Public Safety	3,620,195	3,992,994	4,224,701
Public Works	4,329,411	4,401,668	4,394,930
Recreation & cultural	562,135	533,566	501,229
Other Activities	830,805	416,308	830,357
Interest on Long Term Debt	146,520	71,246	122,605
Total Expenses	<u>10,367,139</u>	<u>10,309,384</u>	<u>10,968,226</u>

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Change in net assets	(693,479)	(1,304,084)	(1,314,059)
Net assets at beginning of the year	28,615,166	27,921,687	26,617,603
Net assets at end of year	<u>27,921,687</u>	<u>26,617,603</u>	<u>25,303,544</u>

Business-type Activities

The City has three business-type activities: water, sewer and golf funds. As shown by the table below, the revenues of these activities increased by 11 percent, and operating & non-operating expenses increased by about 7.5 percent. The City experienced a net asset increase of \$441,831.

Table 3
Changes in Net Assets of Business-type Activities

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues:			
Charges for Services	\$ 3,413,787	3,866,561	4,339,437
Other	203,763	198,423	198,920
Investment Earnings	9,242	124,817	113,692
Total Revenues	<u>\$ 3,626,792</u>	<u>\$4,189,801</u>	<u>\$4,652,049</u>
Expenses:			
Operating & Non-operating	3,562,686	3,641,616	3,914,188
Total Expenses	<u>3,562,686</u>	<u>3,641,616</u>	<u>3,914,188</u>
Excess before transfers	64,106	548,185	737,861
Transfers	<u>(1,098,000)</u>	<u>(131,579)</u>	<u>(296,030)</u>
Increase in Net Assets	<u>\$ (1,033,894)</u>	<u>\$ 416,606</u>	<u>\$ 441,831</u>

The increase in net assets was almost evenly spread between the Water and Sewer funds. The Golf Fund incurred a loss for the second year. This year's loss increased to \$38,893 from \$13,341 in 2005. The losses resulted from uncontrollable cyclical economic factors.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Marysville uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the City of Marysville's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Marysville's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the City completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$7,943,774, a decrease of \$247,178. Approximately 74 percent (percentage remains stable for past two years) of this total amount constitutes unreserved fund balance, which is available for spending at the government's discretion. Of this unreserved amount, \$1,092,493 has been designated for various items, such as EMS equipment (\$631,239) and building improvements

(\$203,850). A complete listing can be found on page 46 in the Notes to Combined Financial Statements. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of the City of Marysville. At the end of the current fiscal year, the fund balance of the general fund is \$4,493,132, while the fund balance at the beginning of the year was \$4,817,414, a moderate decrease of \$324,282. As seen on page 18, the Other Governmental Funds, increased their fund balances by a total of \$77,104. Three funds; Public Improvement, Recreation, and the Motor Vehicle Highway fund increased their fund balances by \$74,367, \$128,643 and \$74,773, respectively. While both Major and Local Streets decreased their fund balances by a combined \$231,406. The net of these funds represent the bulk of the \$77,104.

Proprietary Funds

The City of Marysville's proprietary funds statements provide the same type of information in the government-wide financial statements, but in more detail.

Total net assets for the Proprietary Funds at the end of the year were \$14,109,065, increased by \$441,831 from the prior year. The Water Fund increased by \$266,034 and the Wastewater Fund increased by \$214,690. The Golf Fund actually had a decrease in fund balance by \$38,893. The Golf Fund continues to struggle in this depressed economy, striving to keep the expenses down.

General Fund Budgetary Highlights

Even though the budget is passed by the City Council prior to the beginning of the fiscal year, all expenditures throughout the year are reviewed and approved as they occur. Council and Administration, during Budget sessions, attempt to enable the City to respond to any changes that can and do occur throughout the twelve-month period. During the Budget process the Council discusses major projects, proposed for the upcoming year, as well as looking beyond the budget year.

The Fiscal Year 06 budget was amended in December to authorize the purchase of police and fire equipment for an estimated amount of \$100,232. Grant funding would reimburse the City up to \$87,868 and donations expected of \$7,566, for a cost to the city of only \$4,798.

As part of the budget process it was necessary to change the Water & Sewer Rate Schedule in order to provide adequate revenues for the Marysville Water Filtration and Wastewater Systems, these amended rates become effective for metered and flat rate customers of the City of Marysville on July 1, 2006.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the City had a net book value of \$37.45 million invested in a broad range of capital assets, including police, fire and DPW equipment, buildings, park facilities, roads, and water and sewer lines. Refer to Table 4 for a schedule showing the Capital Assets at year-end for both the year ending 6-30-05 and 6-30-06 for both the Governmental and the Business-type activities. There is also a total column for the Total Primary Government for each year.

Table 4
Capital Assets at Year-end
(Net of Depreciation - in thousands)

	Governmental Activities		Business- type Activities		Total Primary Government	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Land	\$1,076	\$1,067	\$92	\$92	\$1,168	\$1,159
Land improvements	\$675	\$1,037	\$571	\$566	\$1,245	\$1,603
Construction-in-progress	\$698	\$55	\$2,617	\$0	\$3,315	\$55
Buildings	\$4,078	\$3,968	\$2,903	\$2,997	\$6,981	\$6,965
Building improvements	\$213	\$162	\$144	\$127	\$357	\$289
Machinery & Equipment	\$871	\$883	\$915	\$904	\$1,786	\$1,787
Vehicles	\$205	\$284	-		\$205	\$284
Bike paths	\$291	\$279	-		\$291	\$279
Sidewalks	\$762	\$723	-		\$762	\$723
Streets	\$11,719	\$11,324	-		\$11,719	\$11,324
Water & Sewer systems	-	-	\$10,427	\$12,985	\$10,427	\$12,985
Totals	\$20,587	\$19,783	\$17,669	\$17,671	\$38,255	\$37,455

This year's major additions included:

Annual Concrete Streets Improvement program	1,119,560
Water & Sewer Lines Improvements	289,321
Fire Department Equipment and Ambulance	211,808
Land Improvements	93,890
DPW Equipment & Vehicles	199,887
Chlorination Containment System	224,837
Wastewater Equipment & Improvements	40,963

As of 6-30-06, the City has a few projects in process (Construction-in-progress amount above in table) that are scheduled for completion in Fiscal Year 07. One is the Busha Hwy Sewer Line upgrade that will relieve sanitary surcharges upstream. The sewer line upgrade is a part of ongoing work to improve the city's sanitary system and is financed through city funds. This project started in fiscal year 06 and is scheduled for completion in fiscal year 07. When completed it will upgrade the wastewater's retention facility and further decrease

Another project includes the purchase of a Motorola Radio System used by the police and fire departments that will be assisted by a Grant through the State of Michigan. This system will improve emergency response throughout the city and county.

Debt

At year-end, the City has \$8,950,045 in long-term debt versus \$8,855,211 last year. That is a 1% increase over last year, primarily due to the contingent Tax Tribunal cases. Table 5 below illustrates the outstanding debt at year-end.

Table 5
Outstanding Debt at Year-end
(In Millions)

	Governmental Activities		Business- type Activities		Totals	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
General Obligation Bonds (backed by the City)	\$2,686	\$2,593	\$ -0-	\$-0-	\$2,686	\$2,593
Estimated Tax Tribunal Liability	\$-0-	\$300	\$-0-	\$-0-	\$-0-	\$300
Revenue Bonds (backed by specific fee revenues)	\$ -0-	0	\$6,169	\$6,057	\$6,169	\$6,057
Totals	\$2,686	\$2,893	\$6,169	\$6,057	\$8,855	\$8,950

The General Obligation bonds currently due are from the construction of the Police and Fire building and the purchase of the Department of Public-Works complex. These bonds were taken out in 1996 in the amount of \$3,225,000 and were paid off during a refunding process in fiscal year 2005, except the \$100,000 principal payment that was made in September 2005. The City refunded a new debt amount of \$2,680,000, which will reduce the interest cost to the city, very similar to a residential refinancing process.

The revenue bonds are a result of the Combined Sewer Separation and the Wet Weather project that the Michigan Department of Environmental Quality required of the City to decrease excess flows into the St. Clair River. The user fees in the sewer fund create the revenue to pay off these bonds. By September 1993, \$2,375,181 was received for Phase I of the CSO project in bonds and is scheduled for final payment in fiscal year 2015. Phase II of that same project was received by October 1996 for \$3,950,000 and is scheduled to be paid off in fiscal year 2018. As of the end of fiscal year 06, the City received the final Wet Weather Project disbursement of \$293,592.

The State limits the amount of general obligation debt that cities can issue to 10 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt remains below its state-imposed limit.

More detailed information about the City's long-term liabilities is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Marysville (September 2006 SEMCOG-population of 10,329) is primarily a residential community located in St. Clair County, Michigan. According to SEMCOG, population grew steadily from the 2000 Census by 6.6 percent. The city's proximity to the downtown Detroit metropolitan area and several major roadways, including Interstate Highways 94 and 69, has helped spur residential development. The latest reported (census 2000) median income level for Marysville is \$49,299 and the median house value is \$129,700.

It was anticipated during the budget process that there could be a general fund deficit of up to \$623,419 for fiscal year 2005-2006, of which \$145,000 was to be used for the new ambulance. At the end of the year, the general fund experienced an actual deficit of revenues over expenditures and transfers of \$324,282 considerably less than the budgeted amount. The City increasingly relies heavily on property taxes (76.3% of total revenues, versus 73.4% in 2005, 72.65% in 2004 and 70.1% in 2003) and continues operating within the state-authorized tax rate limit. With the continual anticipated

decreases in Revenue Sharing at the State level in the years ahead, along with the bleak short term outlook for the State of Michigan, the City administration will closely with City Council analyzing all aspects of the budget process to continue providing the services that benefit the community.

The City has also adopted a budget for FY 2006-2007. In the General Fund budget for 06-07 the anticipated fund balance draw is \$419,560. The City's elected and appointed officials considered many factors when setting that budget, along with the tax rates, and fees that will be charged for the city's activities. The expenditures budgeted for next year in the general fund increased by 2% or \$152,610 resulting from rising expenditure prices.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office by mail at 1111 Delaware, Marysville, MI 48040, by phone 810-364-6613, by fax 810-364-3940, or e-mail finance@cityofmarysvillemi.com.

BASIC FINANCIAL STATEMENTS

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF NET ASSETS JUNE 30, 2006

	Primary Government			Component Unit
				Local Development Finance Authority
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 2,161,652	\$ 752,153	\$ 2,913,805	\$ -
Investments	5,755,215	1,610,511	7,365,726	-
Receivables (net of allowance)	528,479	735,231	1,263,710	-
Prepaid expenditures	11,550	940	12,490	-
Internal balances	251,141	(251,141)	-	-
Due from component units	133,963	-	133,963	-
Inventory	-	19,841	19,841	-
Deferred charges	94,347	-	94,347	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	1,122,830	623,870	1,746,700	-
Assets being depreciated	18,660,622	17,047,337	35,707,959	-
Total Assets	<u>28,719,799</u>	<u>20,538,742</u>	<u>49,258,541</u>	<u>-</u>
LIABILITIES:				
Payables and accrued liabilities	424,706	332,976	757,682	-
Accrued interest	24,815	34,891	59,706	-
Advances and deposits	74,125	-	74,125	-
Due to primary government	-	-	-	70,480
Deferred revenue	-	4,374	4,374	-
Non-current liabilities				
Due within one year	425,000	410,000	835,000	31,268
Due in more than one year	2,467,609	5,647,436	8,115,045	303,291
Total Liabilities	<u>3,416,255</u>	<u>6,429,677</u>	<u>9,845,932</u>	<u>405,039</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	17,190,843	11,362,630	28,553,473	-
Restricted -				
Acquisition/construction of capital assets	1,375,935	-	1,375,935	-
Cemetery perpetual care				
Expendable	121,734	-	121,734	-
Nonexpendable	205,885	-	205,885	-
Other	1,432,085	-	1,432,085	-
Unrestricted	<u>4,977,062</u>	<u>2,746,435</u>	<u>7,723,497</u>	<u>(405,039)</u>
Total Net Assets	<u>\$ 25,303,544</u>	<u>\$ 14,109,065</u>	<u>\$ 39,412,609</u>	<u>\$ (405,039)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 894,404	\$ 69,920	\$ -	\$ -
Public Safety	4,224,701	400,410	145,330	-
Public Works	4,394,930	14,052	635,575	233,549
Recreation and Culture	501,229	49,605	38,281	-
Other Activities	830,357	19,627	500,000	-
Interest on Long Term Debt	122,605	-	-	-
Total governmental activities	<u>10,968,226</u>	<u>553,614</u>	<u>1,319,186</u>	<u>233,549</u>
Business type activities				
Water Supply System	1,728,997	1,993,869	-	-
Wastewater	1,541,628	1,947,885	-	-
Golf Course	640,211	593,251	-	-
Total business type activities	<u>3,910,836</u>	<u>4,535,005</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>14,879,062</u>	<u>5,088,619</u>	<u>1,319,186</u>	<u>233,549</u>
Component Unit				
Local Development Fiance Authority	<u>17,539</u>	<u>-</u>	<u>-</u>	<u>-</u>

General revenues:

Property taxes

Franchise fees

Grants and contribution not -
restricted to specific programs

Unrestricted investment income

Transfer - internal activities

Special Items

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Local Development Finance Authority
\$(824,484)	\$ -	\$(824,484)	\$ -
(3,678,961)	-	(3,678,961)	-
(3,511,754)	-	(3,511,754)	-
(413,343)	-	(413,343)	-
(310,730)	-	(310,730)	-
(122,605)	-	(122,605)	-
(8,861,877)	-	(8,861,877)	-
-	264,872	264,872	-
-	406,257	406,257	-
-	(46,960)	(46,960)	-
-	624,169	624,169	-
(8,861,877)	624,169	(8,237,708)	-
-	-	-	(17,539)
6,359,483	-	6,359,483	-
106,661	-	106,661	-
1,055,189	-	1,055,189	-
230,455	113,692	344,147	-
96,030	(296,030)	(200,000)	-
(300,000)	-	(300,000)	-
7,547,818	(182,338)	7,365,480	-
(1,314,059)	441,831	(872,228)	(17,539)
26,617,603	13,667,234	40,284,837	(387,500)
\$ 25,303,544	\$ 14,109,065	\$ 39,412,609	\$(405,039)

CITY OF MARYSVILLE, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Assets:			
Cash and cash equivalents	\$ 354,642	\$ 1,427,628	\$ 1,782,270
Investments	3,996,564	1,758,651	5,755,215
Receivables -			
Property taxes (net of allowance)	28,134	2,344	30,478
Interest and accounts	36,843	275	37,118
Special assessments	-	20,646	20,646
Due from other governmental units -			
Federal/State	135,119	224,371	359,490
Local	-	38,281	38,281
Due from other funds	42,466	-	42,466
Due from component units	63,483	70,480	133,963
Advance to other funds	251,141	-	251,141
Prepayments and deposits	10,650	900	11,550
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 4,919,042</u>	<u>\$ 3,543,576</u>	<u>\$ 8,462,618</u>
Liabilities:			
Accounts payable	\$ 277,432	\$ 61,648	\$ 339,080
Accrued liabilities	45,019	15,178	60,197
Advances and deposits	74,125	-	74,125
Deferred revenue	29,334	16,108	45,442
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>425,910</u>	<u>92,934</u>	<u>518,844</u>
Fund Balances:			
Reserved	307,006	1,747,326	2,054,332
Unreserved			
Designated	914,685	177,808	1,092,493
Undesignated -			
General Fund	3,271,441	-	3,271,441
Special Revenue Funds	-	1,525,508	1,525,508
Total Equity	<u>4,493,132</u>	<u>3,450,642</u>	<u>7,943,774</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Equity	<u>\$ 4,919,042</u>	<u>\$ 3,543,576</u>	<u>\$ 8,462,618</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
JUNE 30, 2006**

Fund Balances - total governmental funds		\$	7,943,774
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			48,875,397
Accumulated depreciation		(29,676,790)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			
Delinquent Personal Property Taxes	30,478		
Special Assessments	13,764		
Other	<u>1,200</u>		45,442
Internal Service Fund used by management to charge cost of the City's motor pool activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			
			938,798
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Bonds payable	(2,680,000)	
Contingent Liabilities	(300,000)	
Accrued interest	(<u>24,815</u>)	(3,004,815)
Bond Issuance costs reported as debt retirement in the governmental funds, where they deferred and amortized for net assets			
			94,347
Losses on refunding are not reported in the governmental funds, where they are capitalized and amortized for net assets (netted against bonds payable)			
			<u>87,391</u>
Net Assets of governmental activities		\$	<u><u>25,303,544</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General	Other Governmental Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 6,383,072	\$ -	\$ 6,383,072
Licenses and permits	222,249	-	222,249
Intergovernmental -			
Federal/State	1,207,332	1,369,124	2,576,456
Local	-	38,281	38,281
Charges for services	264,294	-	264,294
Fines and forfeits	26,885	-	26,885
Interest and rent	154,503	82,227	236,730
Special assessment	-	8,534	8,534
Other	105,950	51,238	157,188
Total Revenues	<u>8,364,285</u>	<u>1,549,404</u>	<u>9,913,689</u>
Expenditures:			
Current -			
General Government	569,116	-	569,116
Public Safety	2,683,951	1,076	2,685,027
Public Works	1,343,813	1,064,185	2,407,998
Recreation and Cultural	218,405	228,355	446,760
Other Activities	2,159,858	847,938	3,007,796
Capital Outlay	300,322	672,203	972,525
Debt Service			
Principal	-	100,000	100,000
Interest	-	115,690	115,690
Total Expenditures	<u>7,275,465</u>	<u>3,029,447</u>	<u>10,304,912</u>
Excess of revenues over (under) expenditures	<u>1,088,820</u>	<u>(1,480,043)</u>	<u>(391,223)</u>
Other Financing Sources (Uses):			
Transfer In	-	2,079,147	2,079,147
Transfer Out	<u>(1,413,102)</u>	<u>(522,000)</u>	<u>(1,935,102)</u>
Total Other Financing Sources (Uses)	<u>(1,413,102)</u>	<u>1,557,147</u>	<u>144,045</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(324,282)</u>	<u>77,104</u>	<u>(247,178)</u>
Fund Balances at beginning of year	<u>4,817,414</u>	<u>3,373,538</u>	<u>8,190,952</u>
Fund Balances at end of year	<u><u>\$ 4,493,132</u></u>	<u><u>\$ 3,450,642</u></u>	<u><u>\$ 7,943,774</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2006**

Net change in fund balances - total governmental funds			\$(247,178)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay			1,173,030
Depreciation expense		(2,000,593)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
		(36,821)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			
Principal payments on long term liabilities	100,000		
Amortization of deferred issuance cost	(6,739)		
Amortization of deferred loss on refunding	(6,242)		
Decrease in accrued interest	<u>6,066</u>		93,085
Internal service funds used by management to charge costs of the City's motor pool activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.			
			4,418
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.			
Contingent Liabilities		(<u>300,000</u>)
Change in net assets of governmental activities			<u><u>\$(1,314,059)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2006

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water Supply System	Wastewater	Golf Course	Total	Internal Service Fund
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 238,354	\$ 309,661	\$ 204,138	\$ 752,153	\$ 379,382
Investment	1,107,363	503,148	-	1,610,511	-
Accounts and interest receivable	483,762	251,314	155	735,231	-
Inventories	-	-	19,841	19,841	-
Prepaid expenses	261	108	571	940	-
Total Current Assets	<u>1,829,740</u>	<u>1,064,231</u>	<u>224,705</u>	<u>3,118,676</u>	<u>379,382</u>
Property, Plant and Equipment:					
Property, plant and equipment	11,262,335	13,756,872	1,974,620	26,993,827	1,636,572
Less - accumulated depreciation	(5,316,744)	(3,285,839)	(720,037)	(9,322,620)	(1,051,727)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>5,945,591</u>	<u>10,471,033</u>	<u>1,254,583</u>	<u>17,671,207</u>	<u>584,845</u>
Total Assets	<u><u>7,775,331</u></u>	<u><u>11,535,264</u></u>	<u><u>1,479,288</u></u>	<u><u>20,789,883</u></u>	<u><u>964,227</u></u>
LIABILITIES:					
Current Liabilities:					
Accounts payable	28,220	66,960	9,246	104,426	22,344
Accrued expenses	16,249	7,212	5,089	28,550	3,085
Accrued interest	-	34,891	-	34,891	-
Notes payable (current portion)	-	410,000	-	410,000	-
Due to other funds	-	200,000	-	200,000	-
Deferred revenue	-	-	4,374	4,374	-
Total Current Liabilities	<u>44,469</u>	<u>719,063</u>	<u>18,709</u>	<u>782,241</u>	<u>25,429</u>
Long-Term Liabilities (less current portions):					
Advance from other funds	-	-	251,141	251,141	-
Notes payable (net of current portion)	-	5,647,436	-	5,647,436	-
Total Long-Term Liabilities	<u>-</u>	<u>5,647,436</u>	<u>251,141</u>	<u>5,898,577</u>	<u>-</u>
Total Liabilities	<u>44,469</u>	<u>6,366,499</u>	<u>269,850</u>	<u>6,680,818</u>	<u>25,429</u>
NET ASSETS:					
Investment in capital assets, net of related liabilities	5,945,591	4,413,597	1,003,442	11,362,630	584,845
Unrestricted					
Designated	388,000	313,789	50,000	751,789	146,000
Undesignated	<u>1,397,271</u>	<u>441,379</u>	<u>155,996</u>	<u>1,994,646</u>	<u>207,953</u>
Total Net Assets	<u><u>\$ 7,730,862</u></u>	<u><u>\$ 5,168,765</u></u>	<u><u>\$ 1,209,438</u></u>	<u><u>\$ 14,109,065</u></u>	<u><u>\$ 938,798</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water Supply System	Wastewater	Golf Course	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 1,991,999	\$ 1,917,780	\$ 429,658	\$ 4,339,437	\$ 553,831
Rent income	-	-	160,716	160,716	-
Other	5,222	30,105	2,877	38,204	48
Total Operating Revenues	<u>1,997,221</u>	<u>1,947,885</u>	<u>593,251</u>	<u>4,538,357</u>	<u>553,879</u>
Operating Expenses:					
Personnel services	905,174	581,652	386,586	1,873,412	196,035
Supplies	139,813	76,524	87,775	304,112	144,592
Other services	417,426	477,456	108,490	1,003,372	47,580
Depreciation	266,584	271,579	50,896	589,059	150,431
Total Operating Expenses	<u>1,728,997</u>	<u>1,407,211</u>	<u>633,747</u>	<u>3,769,955</u>	<u>538,638</u>
Operating Income (Loss)	<u>268,224</u>	<u>540,674</u>	<u>(40,496)</u>	<u>768,402</u>	<u>15,241</u>
Non-Operating Revenues (Expenses):					
Gain on sale of assets	(3,352)	-	-	(3,352)	21,785
Interest earned	49,177	56,448	8,067	113,692	15,407
Interest expenses	-	(134,417)	(6,464)	(140,881)	-
Total Non-Operating Revenues	<u>45,825</u>	<u>(77,969)</u>	<u>1,603</u>	<u>(30,541)</u>	<u>37,192</u>
Net Income (Loss) Before Transfers	314,049	462,705	(38,893)	737,861	52,433
Operating Transfers (Out):					
Transfers to other funds	<u>(48,015)</u>	<u>(248,015)</u>	<u>-</u>	<u>(296,030)</u>	<u>(48,015)</u>
Net Income (Loss)	266,034	214,690	(38,893)	441,831	4,418
Net Assets at beginning of year	<u>7,464,828</u>	<u>4,954,075</u>	<u>1,248,331</u>	<u>13,667,234</u>	<u>934,380</u>
Net Assets end of year	<u>\$ 7,730,862</u>	<u>\$ 5,168,765</u>	<u>\$ 1,209,438</u>	<u>\$ 14,109,065</u>	<u>\$ 938,798</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water Supply System	Wastewater	Golf Course	Total	Internal Service Funds
Cash Flows From Operating Activities:					
Cash receipts from customers	\$ 1,927,300	\$ 1,910,034	\$ 594,913	\$ 4,432,247	\$ -
Cash receipts from interfund services	-	-	-	-	556,664
Cash payments to suppliers	(675,960)	(705,694)	(194,247)	(1,575,901)	(180,029)
Cash payments to employees	(894,535)	(576,394)	(392,834)	(1,863,763)	(196,697)
Net Cash Provided (Used) by Operating Activities	<u>356,805</u>	<u>627,946</u>	<u>7,832</u>	<u>992,583</u>	<u>179,938</u>
Cash Flows From Noncapital Financing Activities:					
Payment from/to other funds	(148,015)	(48,015)	-	(196,030)	(48,015)
Cash Flows From Capital and Related Financing Activities:					
Bond payments	-	(250,506)	-	(250,506)	-
Payments on Advance	-	-	(20,095)	(20,095)	-
Proceeds from the sale of assets	-	-	-	-	21,785
Acquisition and construction of capital assets	(294,673)	(300,398)	-	(595,071)	(174,828)
Net Cash Used by Capital and Related Financing Activities	<u>(294,673)</u>	<u>(550,904)</u>	<u>(20,095)</u>	<u>(865,672)</u>	<u>(153,043)</u>
Cash Flows From Investing Activities:					
Redemption (purchase) of investments	160,256	153,335	-	313,591	200,018
Interest earned	49,177	56,448	8,067	113,692	15,407
Net Cash Provided by Investing Activities	<u>209,433</u>	<u>209,783</u>	<u>8,067</u>	<u>427,283</u>	<u>215,425</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	123,550	238,810	(4,196)	358,164	194,305
Cash and Cash Equivalents at Beginning of Year	<u>114,804</u>	<u>70,851</u>	<u>208,334</u>	<u>393,989</u>	<u>185,077</u>
Cash and Cash Equivalents at End of Year	<u>\$ 238,354</u>	<u>\$ 309,661</u>	<u>\$ 204,138</u>	<u>\$ 752,153</u>	<u>\$ 379,382</u>
Reconciliation of Net Income (Loss) to:					
Net Cash Provided (Used) by Operating Activities:					
Operating income (loss) for the year	\$ 268,224	\$ 540,674	\$(40,496)	\$ 768,402	\$ 15,241
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -					
Depreciation	266,584	271,579	50,896	589,059	150,431
Change in assets and liabilities:					
Receivable	(69,921)	(37,851)	1,139	(106,633)	2,785
Prepays and deposits	3,479	3,208	3,023	9,710	2,173
Inventory	-	-	918	918	-
Accounts payable/accrued expenses	(111,561)	(149,664)	(8,171)	(269,396)	9,308
Deferred revenue	-	-	523	523	-
Net Cash Provided (Used) By Operating Activities	<u>\$ 356,805</u>	<u>\$ 627,946</u>	<u>\$ 7,832</u>	<u>\$ 992,583</u>	<u>\$ 179,938</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2006

	Pension and Other Employee Benefit Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS:		
Cash and cash equivalents	\$ 298,352	\$ 41,286
Investments	43,008,969	-
Receivables	199,809	120,219
Due from other funds	<u>200,000</u>	<u>-</u>
Total Assets	<u><u>43,707,130</u></u>	<u><u>161,505</u></u>
 LIABILITIES:		
Accrued liabilities	876,403	-
Due to other governmental units -		161,505
Due to other funds	<u>42,466</u>	<u>-</u>
Total Liabilities	<u><u>918,869</u></u>	<u><u>161,505</u></u>
 NET ASSETS:		
Held in trust for pension benefits	<u><u>42,788,261</u></u>	

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	Pension and Other Employee Benefit Trust Funds
	<u> </u>
Additions:	
Contributions	
Member contributions	\$ 203,909
Employer contributions	<u> 2,094,641</u>
Total Contributions	<u> 2,298,550</u>
Investment income	
Interest/Dividends	1,559,060
Unrealized gain (loss)	(505,196)
Gain (loss) on sale of investments	<u> 1,511,326</u>
Net investment income	<u> 2,565,190</u>
Total Additions	<u> 4,863,740</u>
Deductions:	
Retirement benefit payments	2,282,924
Health insurance	785,582
Vested benefits	5,746
Professional fees	172,512
Miscellaneous	<u> 13,533</u>
Total Deductions	<u> 3,260,297</u>
Net Increase (Decrease)	1,603,443
Net assets held in trust for pension benefits	
Beginning of year	<u> 41,184,818</u>
End of year	<u><u> \$ 42,788,261</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The City of Marysville, Michigan was incorporated in 1924, under the provisions of Act 279, P.A. of 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter, including public safety (police, fire, civil defense, and inspections), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governments' operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate for the City.

BLENDED COMPONENT UNIT -

CITY OF MARYSVILLE BUILDING AUTHORITY - was formed for the purpose of constructing and renovating various Municipal buildings. The main function of the Authority at the present time is to pay off debt. The five (5) member Board is appointed by the Mayor with the City Council confirmation and the City is fiscally responsible for the Authority. As a result, the Authority has been included as a blended component unit.

DISCRETELY PRESENTED COMPONENT UNITS –

MARYSVILLE HOUSING COMMISSION - is a nonprofit entity established pursuant to the Authority of Act 18 of the Public Act of 1933, as amended, which is governed by a five (5) member board appointed by the City Manager. This is a legally separate entity, but is considered a component unit due to the City's ability to influence the Housing Commissions actions through representation on the Housing Commission Board and because of their financial relationship.

The audit of the Housing Commission's financial statements was not completed, therefore, the Housing Commission has not been included in these financial statements, as required by accounting principles generally accepted in the United States of America. As a result, the auditor's opinion has been appropriately qualified.

The audited financial statements of the Marysville Housing Commission, when completed, may be obtained at the following location:

Marysville Housing Commission
1100 New York
Marysville, Michigan 48040

LOCAL DEVELOPMENT FINANCE AUTHORITY – was formed for the purpose of promoting and stimulating local economy. The main function of the Authority at present time is to provide aid to local businesses for economic growth and expansion. The audited financial statements of the Local Development Finance Authority are included with these statements.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

B. Government-wide and fund financial statements –

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on August 31, are recognized as revenue in the year due. Also only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

General Fund – is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

Water Supply System Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Wastewater Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Golf Course Fund – is used to account for the operations and activities of operating the City owned golf course.

Additionally, the City reports the following fund types –

Special Revenue Funds – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Debt Service Funds – are used to account for the accumulation of resources for, and the payment of long-term general obligation debt of governmental funds.

Capital Projects Fund – are used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

Internal Service Fund – is used to account for the costs of operating and maintaining the City's motor pool. Charges are made to other funds based on equipment used.

Pension Trust and Other Employee Trust Funds – are used to accumulate resources for pension, health benefits, and vested vacation and sick for qualified employees.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise and Internal Services Funds are charges to customers for sale and services. Operating expenses from Enterprise and Internal Service Funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition. The investment trusts have the general characteristics of demand deposit accounts in that the City may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonably approximates fair value.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property the receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Property Tax Calendar –

The City’s property tax is levied as of July 1 on the assessed valuation of property located in the City as of the preceding December 31. The taxes are due on July 31 with final collection date as of February 28, after which they are added to the delinquent tax roll. The city also collects taxes for other governmental units which are recorded in the tax fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>
Buildings and improvements	7-50
Land improvements	7-40
Utility systems	10-50
Machinery and equipment	3-20
Bikepaths	30
Vehicles	3-10
Sidewalks	30
Streets	20-30

Compensated Absences –

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The City has elected to fund vacation and sick time as it is earned. As a result these amounts are appropriately accounted for in the Employees Vacation and Sick Pay Fund.

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

In January the department heads/responsible individuals are provided various information to prepare the budgets for their department, which are due at the end of January. The City Manager and Finance Director assembles each of the department budgets and prepares one tentative overall budget. The budget is presented to the City Council in April for review. The City Council holds a public hearing and may make any revisions, which, in their opinion and as a result of the public hearing, is necessary.

The general fund budget was approved at the activity level and the total expenditure level for the Special Revenue Funds. Expenditures at these legally adopted levels are a violation of the Budgetary Act. During the year the City incurred expenditures in the General and Special Revenue Funds which were in excess of the amount appropriated as follows:

Excess of Expenditures Over Appropriations –

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
Major Funds:			
General Fund –			
General Government			
City Assessor/Clerk/Treasurer	\$ 289,012	\$ 294,374	\$ 5,362
Cemetery	65,750	91,725	25,975
Public Safety			
Fire Department	1,005,973	1,041,475	35,502
Civil defense	3,550	4,253	703
Other	-	26,101	26,101
Public Works			
Street lighting	210,000	210,781	781
Sanitation	429,503	435,366	5,863
Other	2,092,107	2,159,858	67,751
Capital Outlay	297,332	300,322	2,990
Transfer Out	1,413,072	1,413,102	30
Nonmajor Funds –			
Local Street Fund	746,140	751,347	5,207

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont'd):

In addition a budget was not adopted for the Industrial Aid Funds.

Other –

As of June 30, 2006, the Local Development Finance Authority (Component Unit) had a deficit fund balance of \$70,480. The deficit will be eliminated as taxes are captured in the district.

NOTE 3 - DEPOSITS AND INVESTMENTS:

Carrying Amount -

At year-end, the carrying amount of the City of Marysville deposits and investments is \$53,625,827 as follows:

	Primary Government	Fiduciary Unit	Reporting Entity
Cash on Hand -			
Petty cash and cash on hand	\$ 2,311	\$ -	\$ 2,311
Deposits with Financial Institutions -			
Checking/Money Market	<u>2,911,494</u>	<u>339,638</u>	<u>3,251,132</u>
Total Deposits	<u>2,913,805</u>	<u>339,638</u>	<u>3,253,443</u>
Investments -			
Certificate of Deposit	2,092,912	894,409	2,987,321
U.S. Government Securities	5,228,969	9,957,177	15,186,146
Stocks -			
U.S. Market	-	18,536,065	18,536,065
Foreign	-	693,846	693,846
Corporate Bonds/Notes -			
U.S. Market	-	5,920,839	5,920,839
Foreign	-	112,690	112,690
Mutual Funds	-	5,156,949	5,156,949
Money Market	<u>43,845</u>	<u>1,736,994</u>	<u>1,780,839</u>
Total Investments	<u>7,365,726</u>	<u>43,008,969</u>	<u>50,374,695</u>
Grand Total	<u>\$ 10,285,531</u>	<u>\$ 43,348,607</u>	<u>\$ 53,628,138</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Deposits -

Act 217 PA 1982, as amended, authorizes the City to deposit in certificate of deposit, saving accounts depository accounts, or depository receipts of a state or nationally chartered bank or state or federal chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintain a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended by section 21.145 and 21.146 of the Michigan Compiled Laws.

Custodial Credit Risk – Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned. As an indication of the level of deposits custodial credit risk assumed by the City, as of June 30, 2006, the book value of the City's deposits was \$3,251,132 with a corresponding bank balance of \$3,660,340. Insured deposits were \$100,000, and the remaining \$3,560,340 was uninsured or uncollateralized.

The City's investment policy allows for the use of bank deposits, including certificates of deposit. There are no limitations placed on the use of bank deposits.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution and assesses the level of risk. The City uses only those financial institutions with an acceptable estimated risk level as depositors.

Investments -

The City's investment policy and Act 20 of the Michigan Public Acts of 1943, as amended, authorizes the City to invest surplus funds in bonds, securities and other direct obligations of the United States government or an agency or instrumentality of the United States; certificates of deposits, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association, or credit union is eligible to be a depository of funds belonging to the State; bankers' acceptance of United States banks; commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Cash and investments of the City's retirement system, health care fund and employee vacation and sick pay fund are subject to the requirements of the Public Employee Retirement System Investments Act (MCL 38.1132).

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Credit Risk – Investments – is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organization. The City Employees Retirement System and the Police Officers and Firefighter Retirement System specifies that all debt securities must have a qualifying rating of Baa/BBB or above by at least two of its major rating agencies at the time of issue. The overall rating of the portfolio should be AA or better. As of year-end, the credit quality ratings city investments are as follows:

Investments	Fair Market Value		Rating	Rating Organization
	Primary Government	Fiduciary Unit		
Corporate Bond/Notes	-	\$ 634,210	AAA	Moody's
Corporate Bond/Notes	-	101,569	AA1	Moody's
Corporate Bond/Notes	-	974,171	AA3	Moody's
Corporate Bond/Notes	-	855,171	AA	Moody's
Corporate Bond/Notes	-	403,736	A1	Moody's
Corporate Bond/Notes	-	603,198	A2	Moody's
Corporate Bond/Notes	-	90,076	A3	Moody's
Corporate Bond/Notes	-	207,842	BAA1	Moody's
Corporate Bond/Notes	-	223,826	BAA2	Moody's
Corporate Bond/Notes	-	522,717	BA1	Moody's
Corporate Bond/Notes	-	476,434	BA2	Moody's
Corporate Bond/Notes	-	361,981	BB	Moody's
Corporate Bond/Notes	-	143,625	BB-	Moody's
Corporate Bond/Notes	-	247,473	B-	Moody's
Corporate Bond/Notes	-	187,500	B2	Moody's

Custodial Credit Risk – Investments – is the risk that, in the event of the failure of the counterparty, the City may not be able to recover the value of its investments that are in the possession of another party. The City's policy requires securities may be held by a third party custodian designated by the treasurer and evidenced by safekeeping receipts. As of June 30, 2006, \$50,274,693 of investments were held in third-party safekeeping not in the City's name, however, evidenced by safekeeping receipts.

Concentration of Credit Risk – Investments – is the risk of loss attributed to the magnitude of the City's investment in a single issuer.

Primary Government – the City places no limits on the amounts the City may invest with any single issuer.

Fiduciary Unit – the General City Employees Retirement System and the Police Officers and Firefighters Retirement System establish certain minimums and maximums that may be invested in any asset class (International Securities, Small/Mid Cap, Equity, Large Cap Equity, Core Bonds, Fixed Income and Cash). The managers may not invest more than 5% of the System's assets in the outstanding securities of an issue, except for Treasury and Agency securities. There is no policy that places limits on the amount any of the other pension-type funds may invest with any issuer.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

As of June 30, 2006, the City had investments of 5% or more of the total portfolio as follows:

	<u>Governmental</u>	<u>Fiduciary</u>
Federal Home Loan Bank	59 %	10 %
Federal Home Loan Mortgage Corporation	10 %	7 %

Interest Rate Risk – Investment – is the risk that the value of investments will decrease as a result of a rise in the interest rates. The investment policy adopted by the City for the primary government specifies the investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycle taking into account the investment risk contracts and cash flow characteristics of the portfolio. At year-end, the City's investments had the following range of maturity dates:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>		
		<u>1-5</u>	<u>6-10</u>	<u>>10</u>
U.S. Agency Securities	\$ 15,186,144	\$ 294,093	\$ 6,176,784	\$ 8,715,267
Corporate Bonds/Notes	6,033,529	150,529	2,284,772	3,598,228
Certificate of Deposit	<u>2,987,321</u>	<u>1,735,520</u>	<u>1,251,801</u>	-
Total Investments	<u>\$ 24,206,994</u>	<u>\$ 2,180,142</u>	<u>\$ 9,713,357</u>	<u>\$12,313,495</u>

Negotiability – Negotiable certificate of deposits are usually in bearer form, and have secondary market that are easily transferable and highly liquid. As of June 30, 2006, the City had negotiable Certificate of Deposits in the amount of \$2,887,321, and non-negotiable Certificate of Deposits in the amount of \$100,000.

NOTE 4 - RECEIVABLES:

Receivables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Property Taxes	\$ 35,478	\$ -
Interest and accounts	37,118	735,231
Special Assessments	20,646	-
Intergovernmental –		
Federal/State	359,490	-
Local	38,281	-
Due from fiduciary funds	<u>42,466</u>	<u>-</u>
	533,479	735,231
Less – allowance for uncollectible	<u>(5,000)</u>	<u>-</u>
	<u>\$ 528,479</u>	<u>\$ 735,231</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 4 – RECEIVABLES – (cont'd):

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund –		
Property taxes	\$ 28,134	\$ -
Grants/fee received prior to all eligibility requirements	1,200	-
Nonmajor Governmental Funds –		
Public Improvement –		
Property taxes	1,042	-
Special Assessments	13,764	-
Motor Vehicle Highway –		
Property taxes	<u>1,302</u>	<u>-</u>
Total deferred/unearned receivables to governmental funds	<u>\$ 45,442</u>	<u>\$ -</u>

NOTE 5 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2006 was as follows:

	<u>July 1, 2005 Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006 Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,076,126	\$ -	\$ 8,656	\$ 1,067,470
Construction in progress	<u>697,476</u>	<u>55,360</u>	<u>697,476</u>	<u>55,360</u>
Total capital assets, not being depreciated	<u>1,773,602</u>	<u>55,360</u>	<u>706,132</u>	<u>1,122,830</u>
Capital assets, being depreciated:				
Buildings	6,052,486	-	-	6,052,486
Building improvements	482,622	-	-	482,622
Land improvements	1,667,022	502,508	-	2,169,530
Machinery and equipment	2,318,282	272,208	225,759	2,364,731
Vehicles	1,351,791	139,487	17,595	1,473,683
Bikepaths	360,161	-	-	360,161
Sidewalks	2,124,344	31,041	-	2,155,385
Streets	<u>33,242,022</u>	<u>1,088,519</u>	<u>-</u>	<u>34,330,541</u>
Total capital assets being depreciated	<u>47,598,730</u>	<u>2,033,763</u>	<u>243,354</u>	<u>49,389,139</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 5 - CAPITAL ASSETS – (cont'd):

	July 1, 2005 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2006 <u>Balance</u>
Less accumulated depreciation for:				
Buildings	\$ 1,975,028	\$ 109,269	\$ -	\$ 2,084,297
Building improvements	269,804	50,465	-	320,269
Land improvements	992,354	140,046	-	1,132,400
Machinery and equipment	1,447,645	224,737	190,626	1,481,756
Vehicles	1,146,919	60,293	17,595	1,189,617
Bikepaths	69,163	12,005	-	81,168
Sidewalks	1,361,966	70,772	-	1,432,738
Streets	<u>21,522,835</u>	<u>1,483,437</u>	<u>-</u>	<u>23,006,272</u>
Total accumulated depreciation	<u>28,785,714</u>	<u>2,151,024</u>	<u>208,221</u>	<u>30,728,517</u>
Total capital assets being depreciated, net	<u>18,813,016</u>	<u>(117,261)</u>	<u>35,133</u>	<u>18,660,622</u>
 Governmental activities capital assets, net	 <u>\$ 20,586,618</u>	 <u>\$(61,901)</u>	 <u>\$ 741,265</u>	 <u>\$ 19,783,452</u>
 Business Type Activities:				
Capital assets, not being depreciated:				
Land	91,500	\$ -	\$ -	\$ 91,500
Land improvements	532,370	-	-	532,370
Construction in progress	<u>2,617,355</u>	<u>-</u>	<u>2,617,355</u>	<u>-</u>
Total capital assets, not being depreciated	<u>3,241,225</u>	<u>-</u>	<u>2,617,355</u>	<u>623,870</u>
 Capital assets, being depreciated:				
Buildings	\$ 6,410,051	224,837	-	6,634,888
Building improvements	372,790	-	-	372,790
Land Improvements	46,237	-	-	46,237
Water and sewer systems	14,267,122	2,853,962	-	17,121,084
Machinery and equipment	<u>2,064,684</u>	<u>130,275</u>	<u>-</u>	<u>2,194,959</u>
Total capital assets being depreciated	<u>23,160,884</u>	<u>3,209,073</u>	<u>-</u>	<u>26,369,957</u>
 Less accumulated depreciation for:				
Buildings	3,506,653	130,952	-	3,637,605
Building improvements	228,939	16,979	-	245,918
Land Improvements	8,092	4,624	-	12,716
Water and sewer systems	3,840,600	295,218	-	4,135,818
Machinery and equipment	<u>1,149,278</u>	<u>141,286</u>	<u>-</u>	<u>1,290,564</u>
Total accumulated depreciation	<u>8,733,562</u>	<u>589,058</u>	<u>-</u>	<u>9,322,620</u>
 Total capital assets being depreciated, net	 <u>14,427,322</u>	 <u>2,620,015</u>	 <u>-</u>	 <u>17,047,337</u>
 Total capital assets, net	 <u>\$ 17,668,547</u>	 <u>\$ 2,620,015</u>	 <u>\$ 2,617,355</u>	 <u>\$ 17,671,207</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 65,833
Public Safety	165,836
Public Works	1,743,268
Recreation and Cultural	<u>25,656</u>
 Total depreciation expense-governmental activities	 <u>\$ 2,000,593</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 5 - CAPITAL ASSETS – (cont'd):

Business-type activities:	
Golf Commission	\$ 50,896
Water Fund	266,584
Sewer Fund	<u>271,579</u>
 Total depreciation expense-business-type activities	 <u>\$ 589,058</u>

In addition there was depreciation of \$150,431 in the Motor Pool Fund.

NOTE 6 - PAYABLES:

Payables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable/accrued liabilities	\$ 361,424	\$ 104,426
Accrued wages and fringe benefits	<u>63,282</u>	<u>28,550</u>
	<u>\$ 424,706</u>	<u>\$ 132,976</u>

NOTE 7 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

The composition of interfund balances as of June 30, 2006:

Due To/From Other Funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	City Employees Retirement	\$ 22,963 (1)
	1965 Police and Fire Retirement	19,503 (1)
Pension Health Care	Waste Water Fund	<u>200,000 (2)</u>
		<u>\$ 242,469</u>

Due To/From Primary Government & Component Units –

General Fund	Housing Commission	\$ 63,483 (1)
	Local Development Finance Authority	<u>70,480 (3)</u>
		<u>\$ 133,963</u>

There is no corresponding liability since the Housing Commission is not included in these financial statements.

Advance To/From Other Funds –

General Fund	Golf Course	<u>\$ 251,141 (4)</u>
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CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 7 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS – (cont'd):

Transfers From/To Other Funds –

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Major Streets Fund	Motor Vehicle Highway Fund	\$ 18,500 (5)
	Public Improvement Fund	18,500 (5)
Local Streets Fund	Major Streets Fund	375,000 (6)
	Motor Vehicle Highway Fund	50,000 (6)
	Public Improvement Fund	60,000 (6)
Motor Vehicle Highway	General Fund	588,042 (7)
Park and Recreation	General Fund	282,994 (7)
Public Improvement	General Fund	470,421 (7)
Building Authority Debt Fund	Motor Pool Fund	48,015 (8)
	Waste Water Fund	48,015 (8)
	Water Fund	48,015 (8)
	General Fund	<u>71,645 (8)</u>
		<u>\$ 2,079,147</u>

There were also transfers from governmental funds to the Pension Health Care Fund that has been recorded as employer contributions in the Fiduciary Funds as follows:

Fiduciary Funds

Pension Health Care Fund	Water Fund	50,000 (2)
	Waste Water Fund	<u>250,000 (2)</u>
	Total Transfers	<u>\$ 300,000</u>

- (1) Reimbursement of costs
- (2) Transfer to Pension Health Care
- (3) Loan to pay operating cost until capture of tax
- (4) Long-term advance to construct Maintenance Building
- (5) Ditch work or other general construction
- (6) Transfer to assist in the maintenance of Local Streets
- (7) Operating transfer based on budget
- (8) Transfer to Building Authority for rent

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 8 - LONG-TERM DEBT:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term debt (including current portions) for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Governmental Activities:					
Governmental Fund -					
Building Authority Bonds	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ -
Building Authority Refunding Bond	2,680,000	-	-	2,680,000	125,000
Contingent Liability - Property Tax Tribunal Cases	-	300,000	-	300,000	300,000
Deferred Amounts	2,780,000	-	100,000	2,980,000	425,000
Refunding Loss	(93,633)	-	(6,242)	(87,391)	-
	<u>2,686,367</u>	<u>300,000</u>	<u>93,758</u>	<u>2,892,609</u>	<u>425,000</u>
Business Activities:					
Enterprise Funds -					
Wastewater Fund -					
Michigan Municipal Bond					
Authority Wastewater Loans -					
Phase I 1993	1,170,000	-	120,000	1,050,000	120,000
Phase II 1996	2,745,000	-	185,000	2,560,000	190,000
Clean Water Program					
2003	<u>2,253,844</u>	<u>293,592</u>	<u>100,000</u>	<u>2,447,436</u>	<u>100,000</u>
Total Business Activities	<u>6,168,844</u>	<u>293,592</u>	<u>405,000</u>	<u>6,057,436</u>	<u>410,000</u>
Total Entity Primary Government	<u>\$ 8,855,211</u>	<u>\$ 593,592</u>	<u>\$ 498,758</u>	<u>\$ 8,950,045</u>	<u>\$ 835,000</u>

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

Building Authority Bonds -

On February 17, 2005, the City issued \$2,680,000 General Obligation – limited tax refunding bonds to purchase U.S. Government, State and Local Service Securities that were placed in an irrevocable trust for the purpose of generating Resources for future debt services payments of \$3,225,000 of the 1996 Building Authority Bonds. As a result, the Refunding bonds have been removed from the City's financial statements. The reacquisition price was lower than the net carrying amount of the old debt by \$111,683. This amount is being capitalized and amortized over the remaining life of the refunding debt, which is the same as the life of the refunded debt. This advance refunding was undertaken to reduce the total debt service payments over 15 years and resulted in an economic loss of \$111,683. The bonds are due in annual installments ranging from \$125,000 to \$245,000 through October 2021, plus interest ranging from 2.500 to 4.375 percent, payable semi-annually

\$ 2,680,000

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 8 - LONG-TERM DEBT - (cont'd):

Wastewater Fund Bonds/Loans –

Michigan Municipal Bond Authority Wastewater Loans were obtained for the purpose of separating the City's sanitary and storm sewer system. The debt and related interest is being repaid through operating revenues of the wastewater fund.

The Phase I loan in the original amount of \$2,375,181 is due in annual installments ranging from \$30,000 to \$135,000 through October 1, 2014, plus interest of 2.0 percent, payable semi-annually \$ 1,050,000

The Phase II loan in the original amount of \$3,950,000 is due in annual installments ranging from \$180,000 to \$240,000 through October 1, 2018, plus interest of 2.25 percent, payable semi-annually 2,560,000

The Clean Water Program Loan for the purpose of eliminating discharge into the St. Clair River in the original amount of \$2,550,000 is due in annual installments ranging from \$100,000 to \$160,000 through October 1, 2024, plus interest of 2.50% payable semi-annually 2,447,436

\$ 6,057,436

Compensated Absences –

In accordance with contracts negotiated with various employee groups of the City of Marysville, individual employees have vested rights upon termination of employments to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The amount of these benefits has been fully funded in the Employee's Vacation and Sick Pay Fund.

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2006 (excluding vacation and sick) and the Clean Water Program loan since the full amount of the loan has not been drawn and a repayment schedule determined) are as follows:

Year Ending June 30,	Building Authority Bonds		Municipal Bond Authority Loans		Clean Water Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 125,000	\$ 97,696	\$ 310,000	\$ 75,263	\$ 100,000	\$ 59,825
2008	120,000	94,484	315,000	68,531	105,000	57,373
2009	120,000	91,034	320,000	61,694	105,000	54,748
2010	145,000	87,059	325,000	54,750	110,000	52,061
2011	140,000	82,609	335,000	47,643	115,000	49,248
2012-2016	785,000	332,079	1,530,000	130,638	610,000	201,805
2017-2022	1,245,000	164,641	475,000	10,744	690,000	120,555
2023-2025	-	-	-	-	612,436	30,963
	<u>\$ 2,680,000</u>	<u>\$ 949,602</u>	<u>\$ 3,610,000</u>	<u>\$ 449,263</u>	<u>\$ 2,447,436</u>	<u>\$ 626,578</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 8 - LONG-TERM DEBT - (cont'd):

Component Units -

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Due Within One Year
Local Development Finance Authority					
Land Contract	\$ 364,305	\$ -	\$ 29,746	\$ 334,559	\$ 31,268

The Local Development Finance Authority purchased property and issued a note for \$371,512 that will be repaid in monthly installments of \$3,940, including interest of 5% through April 4, 2015.

NOTE 9 - RETIREMENT PLANS:

The City has three single employee defined benefit retirement plans covering substantially all employees as follows:

General City Employees Retirement System
Police Officers and Firefighters Retirement System – 1940 Plan
Police Officers and Firefighters Retirement System – 1965 Plan

Plan Descriptions

General City Employee Retirement System -

General City Employees Retirement System – was established by City Council in 1945 for the purpose of continuing and providing retirement income to certain employees and retired employees and survivor benefits to their eligible beneficiaries. The system is administered, managed and operated by a five (5) member board of trustees, which is composed of the Mayor of the City of Marysville, one (1) council member selected by the City Council, a citizen who is not a member and two (2) members of the retirement system.

The membership at July 1, 2005 was comprised of 47 active participants, 42 retirees and beneficiaries, and 5 other inactive participants.

In general all employees are eligible for retirement on attainment of age 60/62 and 5 years of service or age 55 and 25 years of service. The annual normal pension payable is equal to 2.25% of final average compensation multiplied by the number of years of credited service.

Police Officers and Firefighters System – 1940 Plan –

The Police Officers and Firefighters Retirement System – 1940 Plan was established by City Charter in 1940 to provide retirement for police and firefighters and their beneficiaries with twenty-five (25) years of service. In general any member who retired is entitled to one-half of the pay of the rank in which such member was serving at the time of retirement, and in the event of change of rank at any time thereafter, in said rate of pay, then at the rate of one-half of the pay of said rank so changed.

The plan was superseded by the 1964 plan and as of June 30, 2006 there was only one (1) retiree (beneficiary) receiving benefits.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 9 - RETIREMENT PLANS – (cont’):

Police Officers and Firefighters Retirement System – 1964 Plan -

The Police Officers and Firefighters Retirement System – 1965 Plan was established by City Charter in 1965 for the purpose of providing pensions for Police Officers and Firefighters who retire on account of superannuation or total and permanent disability, and to provide survivor pensions to certain dependents. The system is administered, managed and operated by a five (5) member board of trustees, which is comprised of the Mayor or his appointee (must be a Council member) one (1) council members selected by the City Council, a citizens who is not a member, one (1) police officer member and one (1) firefighter member.

The membership at July 1, 2005 was comprised of 24 active participants, 27 retirees and beneficiaries, and 1 other inactive participant.

In general all employees are eligible for normal retirement on attainment of age 55 and 5 years of service. The annual normal pension payable is equal to 2.5% for final salary multiplied by the number of years of credited service, subject to a maximum of 25 years, plus 2% of final average salary multiplied by the number of years of credited service in excess of 25 years.

Summary of Significant Accounting Policy

Basis of Accounting -

The plans utilize the accrual basis of accounting and is reported within the City’s reporting entity as separate Pension Trust Funds. Contributions from employees are recognized as revenues in the period in which employees provide the services.

Method Used to Value Investments -

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Contributions and Funding Policy

Participants of the General City Employees Retirement System and the Police Officers and Fire Retirement System – 1965 plan contribute 5% of compensation with the remaining amount contributed by the City based on a actuarially determined amounts. There is no member contribution for the Police Officers and Firefighters Retirement System – 1940 plan. The City contributes to this plan on a pay as you go method.

General City Employee Retirement System -

For fiscal 2006, the actuarially determined contribution was \$402,441 (18.69% of covered payroll).

The required contribution was determined as part of the July 1, 2005 actual valuation using the actuarial cost method. The actual assumptions include (a) a rate of return of 8.0% (b) projected salary increases of 4.00 per year, and (c) the 1989 Buck Mortality Table.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 9 - RETIREMENT PLANS – (cont’):

Schedule of Employer Contribution

Fiscal Year Ending June 30,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2004	\$ 365,510	100 %	-
2005	366,690	100	-
2006	402,441	100	-

Schedule of Funding Progress

Valuation Date	Actuarial Value of of Assets (a)	Unfunded Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Accrued Liability (UAAL) (b-a)	UAAL Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)(c)
2003	\$16,803,758	\$ 17,831,503	\$ 1,027,795	94.24	\$ 2,300,897	44.67 %
2004	17,172,124	18,776,905	1,604,781	91.45	2,289,952	70.08
2005	17,857,731	19,593,933	1,736,202	91.14	2,153,245	80.63

Police Officers and Firefighters Retirement System – 1964 Plan –

For fiscal 2006, the actuarially determined contribution was \$536,961 (32.76% of covered payroll).

The required contribution was determined as part of the July 1, 2005 actual valuation using the actuarial cost method. The actual assumptions include (a) a rate of return of 8.0% (b) projected salary increases of 4.00 per year, and (c) the 1989 Buck Mortality Table.

Schedule of Funding Progress

Valuation Date	Actuarial Value of of Assets (a)	Unfunded Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Accrued Liability (UAAL) (b-a)	UAAL Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)(c)
2003	14,578,126	15,195,489	617,363	95.94	1,733,318	35.62
2004	14,683,776	18,075,358	3,341,582	81.46	1,602,030	208.58
2005	15,015,228	18,728,091	3,712,863	80.18	1,639,076	226.52

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2004	\$ 289,907	100 %
2005	492,784	100
2006	536,961	100

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 9 - RETIREMENT PLANS – (cont'):

Police Officers and Firefighters Retirement System – 1940 Plan -

Schedule of Employer Contributions

<u>Year Ended June 30,</u>	<u>Annual Contribution</u>
2004	35,665
2005	36,700
2006	35,800

NOTE 10 - POST RETIREMENT BENEFITS:

The City provides health and life insurance benefits to most of the retirees in Note 9. The City funds the benefits on the pay-as-you-go method, which amounted to \$786,582 for fiscal 2006. In addition, the City has established a Pension Health Care Fund to accumulate resources to fund a portion of the unfunded benefit. An actuarial report is commissioned by the City Council at least once every five years to see the City's progress in funding the benefit.

NOTE 11 - DEFERRED COMPENSATION:

The City offers their employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

A trust, custodial account or annuity contract exists, assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

NOTE 12 - FUND EQUITY:

RESERVED FUND BALANCE -

Fund Balance has been reserved in various governmental funds to indicate the portion of Fund Balance not available but reserved for a specific purpose. The following is a summary of Reserved Fund Balance at June 30, 2006:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Fire	\$ 20,127
	Historical	2,460
	DARE	21,331
	Bike Rodeo	1,068
	Donations	229
	Advance to Other Funds	251,141
	Prepaid Expense	<u>10,650</u>
		<u>307,006</u>

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 12 – FUND EQUITY – (cont'd):

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
Nonmajor Funds		
Parks and Recreation	Millage	42,872
	Prepaid Expense	900
Motor Vehicle Highway	Capital Projects	834,052
Building Authority	Capital Projects	541,883
Cemetery Perpetual Care	Perpetual Care	<u>327,619</u>
		<u>1,747,326</u>
		<u>2,054,332</u>

DESIGNATED FUND BALANCE -

The City Council has the power to designate, or set aside, all or a portion of the unreserved Fund Balance for specified purpose. The following is a summary of designated fund balance at June 30, 2005:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Library Improvements	\$ 31,978
	New Equipment	30,000
	Building Improvements	203,850
	Industrial/Commercial Development	17,618
	EMS Equipment	<u>631,239</u>
		914,685
Parks and Recreation	Recreation Projects	<u>177,808</u>
		<u>\$ 1,092,493</u>

Retained Earnings –

The City has designated, or set aside, a portion of the unreserved retained earnings for specific purposes. The following is a summary of the designated retained earnings at June 30, 2006

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
Wastewater Fund	Fringe Benefits	\$ 313,789
Water Fund	Future Improvements	388,000
Golf Course Fund	Fringe Benefits	<u>50,000</u>
		751,789
Motor Pool Fund	Refuse Truck	<u>146,000</u>
		<u>\$ 897,789</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 13 - RISK MANAGEMENT:

General Liability and Property

The City participates in the Michigan Municipal League Liability and Property Pool insurance plan. In general the City carries \$10,000,000 of liability coverage and approximately \$33,515,000 of property insurance with a \$1,000 per claim deductible on property and \$0 on liability.

Workers Compensation

The City participates in the Michigan Municipal Workers' Compensation Self-Insurance Fund administered by the Michigan Municipal League. The fund provides coverage of workers compensation claims subjected to a maximum of \$500,000 per occurrence.

Health Insurance/Pharmacy Charges

Effective September 2005, the City became self-insured for health care benefits with the administered services of the program being performed on a contracted basis by a third party. The City pays claims up to \$15,000 per contract, per year. Stop loss insurance has been purchased to insure the City against losses in excess of these limits. Based on past history, the City has estimated the accrual health care claims, including an estimate for claims incurred but not reported (IBNR) of \$35,112, which is recorded as a current liability in the various funds.

Effective November 1, 2005, the City is self-insured for Pharmacy Charges with the administrative services of the program being performed on a contractual basis by a third party. The City has estimated the accrued claims, including an estimate for claims incurred but not reported (IBNR) of \$20,000, which is recorded as a current liability in the various fund. Total claims paid for the period November 1, 2005 through June 30, 2006 was \$272,667.

NOTE 14 - CONTINGENT LIABILITIES:

Currently there are a few City taxpayers appealing their real and personal property tax assessments that could have an impact on the City's revenues. The largest of these taxpayers, the Detroit Edison, is appealing its tax assessment on the Edison plant located in the City for the 2003-2005 tax levies. In addition, the Detroit Edison is appealing the personal property tax assessment on the DTE Oil Terminal for 2003-2005. (Many of these taxpayers are also appealing their 2006 tax assessment that was billed on July 1, 2006). Should these taxpayers all prevail the City would be required to refund approximately \$640,000, not including the July 1, 2006 tax bill. The City intends to vigorously defend these matters. The City has recorded a reserve of \$300,000 in the entity-wide financial statements should the taxpayers prevail.

The City is also the defendant in a claim filed by approximately 75 residents as a result of flooding during a large storm that hit the City in May 2004. A tentative settlement has been reached that requires the City to pay approximately \$75,000 to resolve all claims. The City has an insurance policy providing \$75,000 in insurance coverage; however, a portion of that has been used to pay the cost of defending the case.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MARYSVILLE, MICHIGAN

**REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE RETIREMENT SYSTEM**

GENERAL CITY EMPLOYEES RETIREMENT SYSTEM

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/96	10,048,696	10,971,000	922,304	91.59%	1,780,992	51.79%
07/01/97	11,808,717	11,754,168	(54,549)	100.46%	1,906,874	-2.86%
07/01/98	13,686,707	12,734,370	(952,337)	107.48%	1,916,506	-49.69%
07/01/99	15,648,850	14,034,351	(1,614,499)	111.50%	1,975,246	-81.74%
07/01/00	16,941,119	15,032,094	(1,909,025)	112.70%	1,994,771	-95.70%
07/01/01	17,335,570	16,242,162	(1,093,408)	106.73%	2,108,013	-51.87%
07/01/02	17,040,860	16,746,879	(293,981)	101.76%	2,252,770	-13.05%
07/01/03	16,803,758	17,831,503	1,027,745	94.24%	2,300,897	44.67%
07/01/04	17,172,124	18,776,905	1,604,781	91.45%	2,289,952	70.08%
07/01/05	17,857,731	19,593,933	1,736,202	91.14%	2,153,245	80.63%

Schedule of Employer Contributions

Year Ended 30-Jun	Annual Required Contributions	Percentage Contributed
1997	324,245	89.80%
1998	197,841	184.70%
1999	58,044	186.30%
2000	-	100.00%
2001	-	100.00%
2002	30,650	100.00%
2003	153,461	100.00%
2004	365,510	100.00%
2005	366,690	100.00%
2006	402,441	100.00%

CITY OF MARYSVILLE, MICHIGAN

**REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE RETIREMENT SYSTEM**

POLICE OFFICERS AND FIREFIGHTERS RETIREMENT SYSTEM

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/96	9,565,878	9,303,476	(262,402)	102.82%	1,264,256	-20.76%
07/01/97	11,156,747	10,098,786	(1,057,961)	110.48%	1,317,298	-80.31%
07/01/98	12,788,100	10,635,002	(2,153,098)	120.25%	1,303,449	-165.18%
07/01/99	14,447,397	11,899,712	(2,547,685)	121.41%	1,405,018	-181.33%
07/01/00	15,473,531	13,310,991	(2,162,540)	116.25%	1,436,920	-150.50%
07/01/01	15,580,355	14,246,713	(1,333,642)	109.36%	1,682,405	-79.27%
07/01/02	15,052,172	14,574,723	(477,449)	103.28%	1,645,893	-29.01%
07/01/03	14,578,126	15,195,489	617,363	95.94%	1,733,318	35.62%
07/01/04	14,683,776	18,025,358	3,341,582	81.46%	1,602,030	208.58%
07/01/05	15,015,228	18,728,091	3,712,863	80.18%	1,639,076	226.52%

Schedule of Employer Contributions

Year Ended 30-Jun	Annual Required Contributions	Percentage Contributed
1997	-	100.00% *
1998	-	100.00%
1999	-	100.00%
2000	-	100.00%
2001	-	100.00%
2002	-	100.00%
2003	130,371	100.00%
2004	289,907	100.00%
2005	492,784	100.00%
2006	536,961	

* Actual contributions made for 1997 was \$138,938

CITY OF MARYSVILLE, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 6,375,860	\$ 6,375,860	\$ 6,383,072	\$ 7,212
Licenses and permits	261,000	261,000	222,249	(38,751)
Intergovernmental -				
Federal/State	1,008,350	1,096,218	1,207,332	111,114
Charges for services	209,430	209,430	264,294	54,864
Fines and forfeits	23,000	23,000	26,885	3,885
Interest and rents	162,735	162,735	154,503	(8,232)
Other	20,000	20,000	105,950	85,950
	<u>8,060,375</u>	<u>8,148,243</u>	<u>8,364,285</u>	<u>216,042</u>
Expenditures:				
General Government -				
Legislative	22,800	22,800	21,746	1,054
City Manager	156,860	156,860	152,895	3,965
City Assessor/Clerk/Treasurer	289,012	289,012	294,374	(5,362)
Board of Review	2,640	2,640	1,755	885
Cemetery	65,750	65,750	91,725	(25,975)
Community Development	80,885	80,885	65,542	15,343
General administration	215,062	215,062	174,302	40,760
	<u>833,009</u>	<u>833,009</u>	<u>802,339</u>	<u>30,670</u>
Less: Reimbursement from other funds	(249,313)	(249,313)	(233,223)	(16,090)
Total General Government	<u>583,696</u>	<u>583,696</u>	<u>569,116</u>	<u>14,580</u>
Public Safety -				
Fire department	1,005,973	1,005,973	1,041,475	(35,502)
Police department	1,493,465	1,493,465	1,436,789	56,676
Civil defense	3,550	3,550	4,253	(703)
Building Inspections	175,516	175,516	175,333	183
Other	-	-	26,101	(26,101)
	<u>2,678,504</u>	<u>2,678,504</u>	<u>2,683,951</u>	<u>(5,447)</u>
Public Works -				
Department of public works	657,412	657,412	586,610	70,802
Street lighting	210,000	210,000	210,781	(781)
Dial-A-Ride	115,000	115,000	111,056	3,944
Sanitation	429,503	429,503	435,366	(5,863)
	<u>1,411,915</u>	<u>1,411,915</u>	<u>1,343,813</u>	<u>68,102</u>

Continued

CITY OF MARYSVILLE, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Recreational and Cultural-				
Parks	\$ 191,400	\$ 191,400	\$ 156,495	\$ 34,905
Beautification committee	19,370	19,370	10,503	8,867
Library	58,380	58,380	36,945	21,435
Historical commission	38,250	38,250	14,462	23,788
	<u>307,400</u>	<u>307,400</u>	<u>218,405</u>	<u>88,995</u>
Other	<u>2,092,107</u>	<u>2,092,107</u>	<u>2,159,858</u>	<u>(67,751)</u>
Capital Outlay	<u>197,100</u>	<u>297,332</u>	<u>300,322</u>	<u>(2,990)</u>
Total Expenditures	<u>7,270,722</u>	<u>7,370,954</u>	<u>7,275,465</u>	<u>95,489</u>
Excess of revenues over (under) expenditures	<u>789,653</u>	<u>777,289</u>	<u>1,088,820</u>	<u>311,531</u>
Other Financing Sources (Uses):				
Transfer Out-				
Public Improvement	(470,421)	(470,421)	(470,421)	-
Motor vehicle Highway	(588,042)	(588,042)	(588,042)	-
Recreation	(282,994)	(282,994)	(282,994)	-
Building Authority	(71,615)	(71,615)	(71,645)	(30)
	<u>(1,413,072)</u>	<u>(1,413,072)</u>	<u>(1,413,102)</u>	<u>(30)</u>
Excess of revenues and other sources over (under) expenditures and other uses	(623,419)	(635,783)	(324,282)	311,501
Fund Balance at beginning of year	<u>4,817,414</u>	<u>4,817,414</u>	<u>4,817,414</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 4,193,995</u>	<u>\$ 4,181,631</u>	<u>\$ 4,493,132</u>	<u>\$ 311,501</u>

Concluded

SUPPLEMENTARY INFORMATION

CITY OF MARYSVILLE, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

Special Revenue Funds

	Major Street	Local Street	Drug Law Enforcement	Public Improvement	Industrial Development
ASSETS					
Cash and cash equivalents	\$ 24,379	\$ 175,927	\$ 14,162	\$ 366,223	\$ 48,424
Investments	196,343	-	-	382,947	196,099
Receivables -					
Current and delinquent property taxes	-	-	-	1,042	-
Accounts and interest	-	-	-	-	-
Special Assessments	-	-	-	20,646	-
Due from other governmental units -					
Federal/State	71,993	28,378	-	-	-
Local	-	-	-	-	-
Due from component unit	-	-	-	-	70,480
Prepaid expenditures and deposits	-	-	-	-	-
Total Assets	<u>\$ 292,715</u>	<u>\$ 204,305</u>	<u>\$ 14,162</u>	<u>\$ 770,858</u>	<u>\$ 315,003</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 5,521	\$ 6,218	\$ -	\$ 34,486	\$ -
Accrued liabilities	4,079	6,425	-	-	-
Deferred revenue	-	-	-	14,806	-
Total Liabilities	<u>9,600</u>	<u>12,643</u>	<u>-</u>	<u>49,292</u>	<u>-</u>
Fund Balance:					
Reserved -					
Prepaid	-	-	-	-	-
Capital Projects	-	-	-	-	-
Millage	-	-	-	-	-
Permanent Fund					
Expendable	-	-	-	-	-
Nonexpendable	-	-	-	-	-
Unreserved -					
Designated-					
Projects	-	-	-	-	-
Undesignated	283,115	191,662	14,162	721,566	315,003
Total Fund Balance	<u>283,115</u>	<u>191,662</u>	<u>14,162</u>	<u>721,566</u>	<u>315,003</u>
Total Liabilities and Fund Balance	<u>\$ 292,715</u>	<u>\$ 204,305</u>	<u>\$ 14,162</u>	<u>\$ 770,858</u>	<u>\$ 315,003</u>

		Debt Service Fund	Capital Projects Funds		Permanent Fund Cemetery Perpetual Care	
Parks and Recreation	Industrial Aid	Building Authority	Building Authority	Motor Vehicle Highway		Total
\$ 191,680	\$ -	\$ -	\$ 82,800	\$ 451,244	\$ 72,789	\$ 1,427,628
-	-	-	459,083	269,349	254,830	1,758,651
-	-	-	-	1,302	-	2,344
275	-	-	-	-	-	275
-	-	-	-	-	-	20,646
-	-	-	-	124,000	-	224,371
38,281	-	-	-	-	-	38,281
-	-	-	-	-	-	70,480
900	-	-	-	-	-	900
<u>\$ 231,136</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 541,883</u>	<u>\$ 845,895</u>	<u>\$ 327,619</u>	<u>\$ 3,543,576</u>
\$ 4,969	\$ -	\$ -	\$ -	\$ 10,454	\$ -	\$ 61,648
4,587	-	-	-	87	-	15,178
-	-	-	-	1,302	-	16,108
<u>9,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,843</u>	<u>-</u>	<u>92,934</u>
900	-	-	-	-	-	900
-	-	-	541,883	834,052	-	1,375,935
42,872	-	-	-	-	-	42,872
-	-	-	-	-	121,734	121,734
-	-	-	-	-	205,885	205,885
177,808	-	-	-	-	-	177,808
-	-	-	-	-	-	1,525,508
<u>221,580</u>	<u>-</u>	<u>-</u>	<u>541,883</u>	<u>834,052</u>	<u>327,619</u>	<u>3,450,642</u>
<u>\$ 231,136</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 541,883</u>	<u>\$ 845,895</u>	<u>\$ 327,619</u>	<u>\$ 3,543,576</u>

CITY OF MARYSVILLE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				
	Major Street	Local Street	Drug Law Enforcement	Public Improvement	Industrial Development
Revenues:					
Intergovernmental -					
Federal/State	436,004	199,571	-	-	-
Local	-	-	-	-	-
Interest and rent	13,366	1,816	491	21,760	5,182
Special assessment	-	-	-	8,534	-
Other	4,965	3,111	4,265	-	-
Total Revenues	<u>454,335</u>	<u>204,498</u>	<u>4,756</u>	<u>30,294</u>	<u>5,182</u>
Expenditures:					
Current -					
Public Safety	-	-	1,076	-	-
Public Works	285,892	751,347	-	-	-
Recreation and Cultural	-	-	-	-	-
Other	-	-	-	347,848	90
Capital Outlay	-	-	-	-	-
Debit Service					
Principal	-	-	-	-	-
Interest and charges	-	-	-	-	-
Total Expenditures	<u>285,892</u>	<u>751,347</u>	<u>1,076</u>	<u>347,848</u>	<u>90</u>
Excess of revenues over (under) expenditures	<u>168,443</u>	<u>(546,849)</u>	<u>3,680</u>	<u>(317,554)</u>	<u>5,092</u>
Other Financing Sources (Uses):					
Transfers In	37,000	485,000	-	470,421	-
Transfers Out	(375,000)	-	-	(78,500)	-
Total Other Financing Sources (Uses)	<u>(338,000)</u>	<u>485,000</u>	<u>-</u>	<u>391,921</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(169,557)</u>	<u>(61,849)</u>	<u>3,680</u>	<u>74,367</u>	<u>5,092</u>
Fund Balances at beginning of year	<u>452,672</u>	<u>253,511</u>	<u>10,482</u>	<u>647,199</u>	<u>309,911</u>
Fund Balances at end of year	<u>\$ 283,115</u>	<u>\$ 191,662</u>	<u>\$ 14,162</u>	<u>\$ 721,566</u>	<u>\$ 315,003</u>

		Debt Service Fund	Capital Projects Funds		Permanent Fund Cemetery Perpetual Care	Total
Parks and Recreation	Industrial Aid	Building Authority	Building Authority	Motor Vehicle Highway		
-	500,000	-	-	233,549	-	1,369,124
38,281	-	-	-	-	-	38,281
9,216	-	-	8,174	10,837	11,385	82,227
-	-	-	-	-	-	8,534
26,257	-	-	-	-	12,640	51,238
73,754	500,000	-	8,174	244,386	24,025	1,549,404
-	-	-	-	-	-	1,076
-	-	-	9,994	16,952	-	1,064,185
228,105	-	-	-	-	250	228,355
-	500,000	-	-	-	-	847,938
-	-	-	-	672,203	-	672,203
-	-	100,000	-	-	-	100,000
-	-	115,690	-	-	-	115,690
228,105	500,000	215,690	9,994	689,155	250	3,029,447
(154,351)	-	(215,690)	(1,820)	(444,769)	23,775	(1,480,043)
282,994	-	215,690	-	588,042	-	2,079,147
-	-	-	-	(68,500)	-	(522,000)
282,994	-	215,690	-	519,542	-	1,557,147
128,643	-	-	(1,820)	74,773	23,775	77,104
92,937	-	-	543,703	759,279	303,844	3,373,538
\$ 221,580	\$ -	\$ -	\$ 541,883	\$ 834,052	\$ 327,619	\$ 3,450,642

CITY OF MARYSVILLE, MICHIGAN

**MAJOR STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
State -			
Act 51	\$ 440,000	\$ 436,004	\$(3,996)
Interest	5,500	13,366	7,866
Other	5,000	4,965	(35)
Total Revenues	450,500	454,335	3,835
Expenditures:			
Public Works-			
Routine Maintenance	149,639	158,331	(8,692)
Traffic Services Maintenance	28,127	33,993	(5,866)
Winter Maintenance	74,407	61,934	12,473
Administration/Engineering	24,232	28,594	(4,362)
Construction	18,000	3,040	14,960
Total Expenditures	294,405	285,892	8,513
Excess of revenues over expenditures	156,095	168,443	12,348
Other Financing Sources (Uses):			
Transfers in	37,000	37,000	-
Transfers out	(375,000)	(375,000)	-
	(338,000)	(338,000)	-
Excess of revenues and other sources over (under) expenditures and other uses	(181,905)	(169,557)	12,348
Fund Balance at beginning of year	452,672	452,672	-
Fund Balance at end of year	\$ 270,767	\$ 283,115	\$ 12,348

CITY OF MARYSVILLE, MICHIGAN

**LOCAL STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2006**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
State -			
Act 51	\$ 175,000	\$ 171,863	\$(3,137)
Maintenance	28,000	27,708	(292)
Interest	1,500	1,816	316
Other	1,500	3,111	1,611
Total Revenues	206,000	204,498	(1,502)
Expenditures:			
Public Works			
Routine Maintenance	329,394	457,684	(128,290)
Traffic Services Maintenance	28,864	24,705	4,159
Winter Maintenance	101,625	83,560	18,065
Administration/Engineering	29,257	33,666	(4,409)
Construction	257,000	151,732	105,268
Total expenditures	746,140	751,347	(5,207)
Excess of revenues over (under) expenditures	(540,140)	(546,849)	(6,709)
Other Financing Sources:			
Transfers in	485,000	485,000	-
Excess of revenues and other sources over (under) expenditures	(55,140)	(61,849)	(6,709)
Fund Balance at beginning of year	253,511	253,511	-
Fund Balance at end of year	\$ 198,371	\$ 191,662	\$(6,709)

CITY OF MARYSVILLE, MICHIGAN

**DRUG -LAW ENFORCEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2006**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 25	\$ 491	\$ 466
Other	4,975	4,265	(710)
Total Revenues	5,000	4,756	(244)
Expenditures:			
Public Safety			
Other	5,000	1,076	3,924
Excess of revenues over (under) expenditures	-	3,680	3,680
Fund Balance at beginning of year	10,482	10,482	-
Fund Balance at end of year	\$ 10,482	\$ 14,162	\$ 3,680

CITY OF MARYSVILLE, MICHIGAN

**PUBLIC IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2006**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	7,300	21,760	14,460
Special assessment	-	8,534	8,534
Total Revenues	7,300	30,294	22,994
Expenditures:			
Other			
Administration	7,823	8,150	(327)
Professional fees	14,443	14,046	397
Capital outlay	545,000	325,652	219,348
Total Expenditures	567,266	347,848	219,418
Excess of revenues over (under) expenditures	(559,966)	(317,554)	242,412
Other Financing Sources (Uses):			
Transfers in	470,421	470,421	-
Transfers out	(78,500)	(78,500)	-
	391,921	391,921	-
Excess of revenues over (under) expenditures and other uses	(168,045)	74,367	242,412
Fund Balance at beginning of year	647,199	647,199	-
Fund Balance at end of year	\$ 479,154	\$ 721,566	\$ 242,412

CITY OF MARYSVILLE, MICHIGAN

**INDUSTRIAL DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2006**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 2,000	\$ 5,182	\$ 3,182
Expenditures:			
Other			
Professional fees	1,000	90	910
Excess of revenues over (under) expenditures	1,000	5,092	4,092
Fund Balance at beginning of year	309,911	309,911	-
Fund Balance at end of year	<u>\$ 310,911</u>	<u>\$ 315,003</u>	<u>\$ 4,092</u>

CITY OF MARYSVILLE, MICHIGAN

**RECREATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2006**

	Original/ Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:			
County park millage	\$ 39,100	\$ 38,281	\$ (819)
Interest	3,000	9,216	6,216
Other	6,400	26,257	19,857
Total Revenues	48,500	73,754	25,254
Expenditures:			
Recreation and culture			
Salaries and wages	109,064	64,004	45,060
Fringe benefits	64,400	46,365	18,035
Materials and supplies	4,710	5,467	(757)
Program expense	97,265	97,419	(154)
Travel	1,450	1,539	(89)
Insurance	5,250	3,543	1,707
Contracted services	505	505	-
Maintenance	11,700	5,245	6,455
Miscellaneous	4,150	3,721	429
Capital Outlay	-	297	(297)
Total Expenditures	298,494	228,105	70,389
Excess of revenues over (under) expenditures	(249,994)	(154,351)	95,643
Other Financing Sources:			
Transfers in	282,994	282,994	-
Excess of revenues and other sources over (under) expenditures	33,000	128,643	95,643
Fund Balance at beginning of year	92,937	92,937	-
Fund Balance at end of year	\$ 125,937	\$ 221,580	\$ 95,643

CITY OF MARYSVILLE, MICHIGAN

**INDUSTRIAL AID FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2006**

	Original/ Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:			
Intergovernmental -			
Federal	\$ -	\$ 500,000	\$ 500,000
Expenditures:			
Capital Outlay	-	500,000	(500,000)
Excess of revenues over (under) expenditures	-	-	-
Fund Balance at beginning of year	-	-	-
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

FIDUCIARY FUNDS

CITY OF MARYSVILLE, MICHIGAN

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUND
JUNE 30, 2006**

	Employee Retirement Systems			Pension
	Police and Firemen		Other City	Health
	1940 Plan	1965 Plan	Employees	Care
ASSETS:				
Cash and cash equivalents	\$ 938	\$ 1,001	\$ 1,001	\$ 124,529
Investments, at fair value				
Marketable CD's	-	1,059,585	631,251	592,930
U.S. Government Securities	-	1,453,080	2,005,772	6,247,625
Convertible Securities	-	1,967,238	3,189,710	-
Corporate Bonds	-	2,038,534	2,244,451	1,730,251
Foreign Bonds	-	56,345	56,345	-
Stocks	-	8,778,358	10,402,439	-
Total Investments	-	15,353,140	18,529,968	8,570,806
Receivables -				
Accounts receivable	-	-	-	-
Interest and dividends	-	56,600	68,185	75,024
	-	56,600	68,185	75,024
Due from other funds	-	-	-	200,000
Total Assets	938	15,410,741	18,599,154	8,970,359
LIABILITIES:				
Accrued liabilities	-	150,465	-	-
Due to other funds	-	19,503	22,963	-
	\$ -	\$ 169,968	\$ 22,963	\$ -
NET ASSETS:				
Net assets held in trust for pension benefits	\$ 938	\$ 15,240,773	\$ 18,576,191	\$ 8,970,359

Employees Vacation/ Sick Pay	Total
<u>\$ 170,883</u>	<u>\$ 298,352</u>
555,055	2,838,821
-	9,706,477
-	5,156,948
-	6,013,236
-	112,690
-	19,180,797
<u>555,055</u>	<u>43,008,969</u>
-	-
-	199,809
-	199,809
-	200,000
<u>725,938</u>	<u>43,707,130</u>
725,938	876,403
-	42,466
<u>\$ 725,938</u>	<u>\$ 918,869</u>
<u>\$ -</u>	<u>\$ 42,788,261</u>

CITY OF MARYSVILLE, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	Employee Retirement Systems			Pension
	Police and Firemen		Other City	Health
	1940 Plan	1965 Plan	Employees	Care
Additions:				
Contributions				
Member contributions	\$ -	\$ 87,129	\$ 116,780	\$ -
Employer contributions	35,800	823,665	902,666	300,000
Total Contributions	35,800	910,794	1,019,446	300,000
Investment income				
Interest/Dividends	-	541,601	597,775	419,684
Unrealized gain (loss)	-	(175,036)	61,425	(359,075)
Gain (loss) on sale of investments	-	731,576	787,243	(7,493)
Net investment income	-	1,098,141	1,446,443	53,116
Total Additions	35,800	2,008,935	2,465,889	353,116
Deductions:				
Retirement benefit payments	37,834	1,244,087	1,001,003	-
Health insurance	-	288,902	496,680	-
Vested benefits	-	2,201	3,545	-
Professional fees	-	77,508	95,004	-
Miscellaneous	-	5,744	7,789	-
Total Deductions	37,834	1,618,442	1,604,021	-
Net Increase (Decrease)	(2,034)	390,493	861,868	353,116
Net assets held in trust for pension benefits:				
Net Assets at beginning of year	2,972	14,850,280	17,714,323	8,617,243
Net Assets end of year	\$ 938	\$ 15,240,773	\$ 18,576,191	\$ 8,970,359

Employees Vacation/ Sick Pay	Total
\$ -	\$ 203,909
32,510	2,094,641
32,510	2,298,550
-	1,559,060
(32,510)	(505,196)
-	1,511,326
(32,510)	2,565,190
-	4,863,740
-	2,282,924
-	785,582
-	5,746
-	172,512
-	13,533
-	3,260,297
-	1,603,443
-	41,184,818
\$ -	\$ 42,788,261

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - SCHOOL AND COUNTY TAX FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 53,792	\$ 169,946	\$ 182,452	\$ 41,286
Taxes Receivable	<u> 718,309</u>	<u> 12,497,780</u>	<u> 13,095,870</u>	<u> 120,219</u>
Total Assets	<u><u> \$ 772,101</u></u>	<u><u> \$ 12,667,726</u></u>	<u><u> \$ 13,278,322</u></u>	<u><u> \$ 161,505</u></u>
 Liabilities:				
Due to other governmental units -	<u><u> \$ 772,101</u></u>	<u><u> \$ 12,538,833</u></u>	<u><u> \$ 13,149,429</u></u>	<u><u> \$ 161,505</u></u>

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL
FUNDS**

CITY OF MARYSVILLE, MICHIGAN

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
General City:				
Land	\$ 1,076,126	\$ -	\$ 8,656	\$ 1,067,470
Land improvements	1,667,022	502,508	-	2,169,530
Buildings	6,052,486	-	-	6,052,486
Building improvements	482,622	-	-	482,622
Machinery & equipment	2,318,282	272,208	225,759	2,364,731
Vehicles	1,351,791	139,487	17,595	1,473,683
Bikepaths	360,161	-	-	360,161
Sidewalks	2,124,344	31,041	-	2,155,385
Streets	33,242,022	1,088,519	-	34,330,541
	<u>48,674,856</u>	<u>2,033,763</u>	<u>252,010</u>	<u>50,456,609</u>
Less - accumulated depreciation	<u>(28,785,714)</u>	<u>(2,151,024)</u>	<u>(208,221)</u>	<u>(30,728,517)</u>
	19,889,142	(117,261)	43,789	19,728,092
Construction in progress	<u>697,476</u>	<u>55,360</u>	<u>697,476</u>	<u>55,360</u>
Net Total Investment in General Fixed Assets	<u><u>\$ 20,586,618</u></u>	<u><u>\$ (61,901)</u></u>	<u><u>\$ 741,265</u></u>	<u><u>\$ 19,783,452</u></u>

COMPONENT UNIT - LOCAL DEVELOPMENT FINANCE AUTHORITY

CITY OF MARYSVILLE, MICHIGAN

**BALANCE SHEET/STATEMENT OF NET ASSETS
LOCAL DEVELOPMENT FINANCE AUTHORITY
JUNE 30, 2006**

	<u>Governmental Activities</u>	<u>GASB 34 Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Capital Assets (net of accumulated depreciation)			
Assets not being depreciation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Due to primary government	\$ 70,480	\$ -	\$ 70,480
Non-current liabilities			
Due within one year	-	31,268	31,268
Due in more than one year	<u>-</u>	<u>303,291</u>	<u>303,291</u>
Total Liabilities	70,480	334,559	405,039
Fund Balance (Deficit):			
Unreserved	<u>(70,480)</u>	<u>70,480</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ -</u>		
Net Assets (Deficits):			
Unrestricted		<u>(405,039)</u>	<u>(405,039)</u>
Total Net Assets (Deficits)		<u>\$(405,039)</u>	<u>\$(405,039)</u>

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS - LOCAL DEVELOPMENT FINANCE AUTHORITY
JUNE 30, 2006**

Fund Balance (Deficit) - Local Development Finance Authority	\$ (70,480)
Long - term liabilities, including installments payable, are not due and payable in the current period and therefore are not reported in the funds.	
Notes payable	<u>(334,559)</u>
Net Asset (Deficit) of Downtown Development Authority activities	<u>\$(405,039)</u>

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN
FUND BALANCE/STATEMENT OF ACTIVITIES
LOCAL DEVELOPMENT FINANCE AUTHORITY
FOR THE YEARS ENDED JUNE 30, 2006**

	<u>Governmental Activities</u>	<u>GASB 34 Adjustments</u>	<u>Statement of Net Assets</u>
Expenditures/Expenses:			
Debt Service-			
Principal	29,746	(29,746)	-
Interest and fiscal charges	<u>17,539</u>	<u>-</u>	<u>17,539</u>
	47,285	(29,746)	17,539
Other Financing Sources:			
Loan proceeds	<u>-</u>	<u>-</u>	<u>-</u>
Other financial sources			
under expenditures	(47,285)	29,746	(17,539)
Fund Balance/Net Asset at beginning of year	<u>(23,195)</u>	<u>(364,305)</u>	<u>(387,500)</u>
Fund Balance/Net Asset (Deficit) at end of year	<u><u>\$(70,480)</u></u>	<u><u>\$(334,559)</u></u>	<u><u>\$(405,039)</u></u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES/EXPENSES , AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
LOCAL DEVELOPMENT FINANCE AUTHORITY
JUNE 30, 2006**

Net change in fund balances - Local Development Finance Authority \$ (47,285)

The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.

Principal payments on long term liabilities	<u>29,746</u>
Change in net assets of Local Development Finance Authority activities	<u><u>\$(17,539)</u></u>

CITY OF MARYSVILLE, MICHIGAN

**SUPPLEMENTARY INFORMATION TO
BASIC FINANCIAL STATEMENTS**

(FEDERAL AWARDS)

FOR THE YEAR ENDED JUNE 30, 2006

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CITY OF MARYSVILLE, MICHIGAN

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**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marysville, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements. Those financial statements are the responsibility of the City of Marysville's management. Our responsibility is to express opinions on those financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Marysville, Michigan's basic financial statements. The Schedule of Federal Expenditures of Federal Awards presented on Page 6 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the basic financial statements. The information in this schedule has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

September 15, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marysville, Michigan, as of and for the year ended June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Marysville, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marysville, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Marysville in a separate letter dated September 15, 2006.

This report is intended solely for the information and use of management and the City Council of the City of Marysville, Michigan, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stewart, Beauvois & Whipple

Certified Public Accountants

September 15, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

Compliance

We have audited the compliance of the City of Marysville, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Marysville, Michigan's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the City of Marysville, Michigan's management. Our responsibility is to express an opinion on the City of Marysville, Michigan's compliance based on our audit.

The City of Marysville, Michigan's financial statements include the operations of the City of Marysville Housing Commission, a discretely presented component unit of the City, which received \$217,285 in federal awards, which is not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2006. Our audit, as described below, did not include the operations of the City of Marysville Housing Commission. It had a separate audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Marysville, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Marysville, Michigan's compliance with those requirements.

In our opinion, the City of Marysville, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Marysville, Michigan, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Marysville, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and City Council of the City of Marysville, Michigan, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

Certified Public Accountants

September 15, 2006

CITY OF MARYSVILLE, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<u>Passed Through Michigan Strategic Fund:</u>			
Community Development Block Grant/State's Program			
Revolving Loan Fund-	14.228		
Small Cities Program		MSC 204003-EDIL	\$ 500,000
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<u>Passed Through The Michigan Department of State Police:</u>			
Enforcing Underage Drinking Laws Program	16.727		
Youth Alcohol Enforcement		N/A	2,837
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>			
<u>Passed Through ST. CLAIR COUNTY:</u>			
State and Community Highway Safety -			
Drive Michigan Safely Task Force	20.600	N/A	18,035
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY:</u>			
<u>Passed Through the Michigan Department of Environmental Quality:</u>			
Capitalization Grants for Drinking Water			
State Revolving Funds (a)-	66.468		
State Revolving Fund Loan		N/A	74,883
<u>U.S. ELECTION ASSISTANCE COMMISSION:</u>			
<u>Pass Through Michigan Department of State</u>			
Help America Vote Act Requirements Payments (a)	90.401		
Stone Guard		N/A	18,240
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
<u>Passed Through The Michigan Department of State Police:</u>			
State Domestic Preparedness Grant -	97.004		
Part II Training - Stone Garden Grant		N/A	2,001
State Homeland Security Grant BZPP Program -	97.078		50,000
Buffer Zone Protection Plan		N/A	
<u>Passed Through St. Clair County:</u>			
State Domestic Preparedness Equipment Support Grant -	97.004		
03 SHSG Training Part II		N/A	2,308
<u>Direct</u>			
Assistance to Firefighters	97.044	N/A	49,231
Total U.S. Department of Homeland Security			103,540
Total Federal Awards			\$ 717,535

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Marysville as presented in its governmental and proprietary funds in the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements (See Note 3).

NOTE 2 - SUMMARY OF FEDERAL REIMBURSEMENT:

Reimbursements of contracts are not all funded 100% by the Federal Government. The expenditures reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective reimbursements. The programs referenced as (a) on the Schedule of Expenditures of Federal Awards are a percentage of total contract expenditures as summarized below:

<u>Program</u>	<u>CFDA Number</u>	<u>Percent</u>
Drinking Water State Revolving Fund Program	66.468	20.92-49.57 %
Help America Vote Act Requirements Payments	90.401	95

NOTE 3 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

The following schedule reconciles the intergovernmental revenues reported in the June 30, 2006 basic financial statements for the primary government to the expenditures of the City of Marysville administered federal programs reported on the Schedule of Expenditures of Federal Awards.

	<u>Governmental Funds</u>		<u>Proprietary</u>	
	<u>Major</u>	<u>Non-Major</u>	<u>Funds</u>	<u>Total</u>
Balance per Financial Statements –				
Governmental Funds –				
Intergovernmental revenue	\$ 1,207,332	\$ 1,407,405	\$ -	\$ 2,614,737
Add:				
Reported as Bond proceeds	-	-	74,883	74,883
Less:				
State and Local intergovernmental revenue	(1,064,680)	(907,405)	-	(1,972,085)
Federal Award Expenditures				
Revenue per Basic Financial				
Statements	<u>\$ 142,652</u>	<u>\$ 500,000</u>	<u>\$ 74,883</u>	<u>\$ 717,535</u>

CITY OF MARYSVILLE, MICHIGAN

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section I – Summary Of Auditor’s Results:

Financial Statements

Type of auditor’s report issued: Unqualified

Internal controls over financial reporting:
Material weakness(es) identified? _____ yes x no
Reportable condition(s) identified not
considered to be material weaknesses? _____ yes x none reported

Noncompliance material to financial
statements noted? _____ yes x no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____ yes x no
Reportable condition(s) identified not
considered to be material weaknesses? _____ yes x none reported

Type of auditor’s report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required to
be reported in accordance with Circular A – 133,
Section 510(a)? _____ yes x no

Identification of Major Program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #14.228	Community Development Block Grant/ State’s Program

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? x yes _____ no

Section II - Financial Statement Findings:

There were no Financial Statement Findings.

Section III - Federal Award Findings and Questioned Costs:

There were no Federal Award Findings and Questioned Costs.

Section IV – Prior Years Findings and Questioned Costs:

There were no Prior Years Findings or Questioned Costs.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marysville, Michigan, as of and for the year ended June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Marysville, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marysville, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Marysville in a separate letter dated September 15, 2006.

This report is intended solely for the information and use of the audit committee, management and the City Council of the City of Marysville, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Stewart, Beauvois & Whipple".

Certified Public Accountants

September 15, 2006



MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

As you know, we have recently completed our audit of the financial statements of the City of Marysville, Michigan as of and for the year ended June 30, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control, operational efficiency and/or compliance with Federal or State requirements. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the **Report on Internal Control Over Financial Reporting Based And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**, dated September 15, 2006, the conditions described below are not considered reportable conditions or material weaknesses.

Controls could be strengthened over the ambulance billings.

At the current time, charges for emergency medical services are billed by the fire department personnel and payments are collected at the City Hall. In addition, the fire department personnel maintain the ledger indicating the amounts due and write off balances that are considered uncollectible. The charges are not recorded on the City's general ledger until the time of payment. As a result, should someone pay at the fire department or mail their payment to the fire department, it would be possible to mark the individual paid or uncollectible, and not deposit the funds with the City Treasurer. We understand that payments are not supposed to be paid to the fire department; however, it is possible that they could be.

Controls could be improved by recording all billing on the City general ledger, and then as payments are received, they would be applied against the receivable account. Then at the end of the month, the general ledger balance should be reconciled to the detailed accounts receivable ledger maintained by the fire department. All write-offs could then be approved by the City Council.

All payments to vendors should be approved by the City Council.

During our audit we noted the reoccurring type expenses and payroll benefits paid out of the City's accounts payable account are not submitted to the City Council for approval. The State or Michigan Department of Treasury requires, and we recommend, that all invoices be approved by the City Council prior to payment. If certain invoices cannot be held until the next Council meeting without incurring a penalty, then they could be approved after the fact.

Budgets should be adopted for all Special Revenue Funds.

For the year ended June 30, 2006, although the City Council approved accepting the grant and remitting it to a local company, the City did not adopt the Industrial Aid Fund. Public Act 621 of 1978 requires that a budget be formally adopted. In the future we recommend that a formal budget be adopted.

Information should be available to comply with GASB No. 40 – Deposit and Investment Risk Disclosures.

We recommend that the City work with the company and develop a report that will readily provided the information required by GASB No. 40 on a monthly basis.

The City is required to present additional information regarding the investments of the City including the types of investments held, cost, market value, average maturity, etc. The monthly financial reports do not provide some of this information, therefore we had to contact various brokers and summarize certain information.

Separate account numbers should be utilized to account for expenditures of federal grants.

For fiscal 2006, expenditures for certain federal grants were changed to account number with non-federal expenditures. Federal regulations require that expenditures for federal grants get accounted for separately. Also, this would facilitate the preparation of reports and request for reimbursements.

This report is intended solely for the information of the City Council of the City of Marysville, management, others within the organization and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvois & Whipple".

September 15, 2006